



DRAFT

ANNUAL BUDGET REPORT FOR

ABAQULUSI MUNICIPALITY

2019/20 TO 2021/22

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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ABBREVIATIONS AND ACRONYMS

Adjustments Budgets – Prescribed in Section 28 of the Municipal Finance Management Act, this is the formal means by which a municipality may revise its budget during a financial year.

Allocations – Money received from Provincial and National Treasury.

Budget – The financial plan of a municipality.

Budget related policy – Policy of a municipality affecting, or affected by, the budget. Examples include tariff policy, rates policy and credit control and debt policy.

Budget Steering committee – Committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the MFMA.

Capital Expenditure – Spending on municipal assets such as land, buildings and vehicles. Any capital expenditure must be reflected as an asset on a municipality's balance sheet.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the municipality, and the month end balances of cash and short-term investments.

CPI – Headline Consumer Price Index

DORA – Division of Revenue Act. Annual legislation which shows the allocations from national to local government.

DORB – Division of Revenue Bill. Annual legislation tabled in parliament, but not enacted, which shows the allocations from national to local government.

Executive Management Team – A team comprising the Municipal Manager and the Executive Directors. It reports to the Municipal Manager.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted at assisting municipalities with the costs of free basic services.

GDFI - Gross Domestic Fixed Investment

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

IDP – Integrated Development Plan. The main strategic planning document of a municipality.

KPI – Key Performance Indicators. Measures of service output and/or outcome.

MFMA - Municipal Finance Management Act (No 53 of 2003). The principal piece of legislation relating to municipal financial management.

MSCOA – Municipal Standard Chart of Accounts

MTREF – Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years.

MYPD – Multi Year Price Determination

NT – National Treasury

Operating Expenditure – The day-to-day expenses of a municipality such as general expenses, salaries & wages and operational costs.

Portfolio Committee – In line with Section 79 of the Structures Act, the Municipality's Portfolio Committees process policies and bylaws relating to the functional areas within their terms of reference, and are responsible for implementation monitoring of these, as well as oversight of the functional areas. Portfolio Committees are also responsible for assessing and monitoring services delivery, ensuring that annual budgets are spent wisely, and that there is no wastage or corruption.

Rates – Local Government tax based on assessed valuation of a property.

TMA – Total Municipal Account

SCM - Supply Chain Management

SDBIP – Service Delivery Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

SFA – Strategic Focus Areas. The main priorities of a municipality as set out in the IDP. Budgeted spending must contribute towards achievement of these Strategic Focus Areas.

Vote (Function) – One of the main segments into which a budget is divided, usually at directorate level.

Part 1 – Annual Budget

Mayor's Report

Today, I submit to the Council the Draft Medium-Term Budget for 2019/2020. It reflects to the best of my judgement the financial situation of the municipality. It is in the interest of our people and community and not in the narrow objectives of any political party. It is to promote and safeguard sound financial status of the municipality.

I am here to speak about hard facts and figures as this budget is built on fundamental principles including:

- *Achieving a higher rate of economic growth*
- *Reasonable, affordable expenditure*
- *Stabilising and reducing debt*

Achieving these principles will not be easy as there are no quick fixes but as a Council, we will plant the seeds of our future.

Continuing on the remarks made by the Minister of Finance during the tabling of the annual budget, we too are masters of our own destiny and remain focused on restoring our finances and fixing our fiscal discipline will take great courage but it can be done if we all work together for the better of our community.

We will strive to carry out the tasks set by the President:

- *Accelerate inclusive economic growth and create jobs*
- *Improve the education and develop the skills that we need now and into the future*
- *Improve the conditions of life for all, especially the poor*
- *Fight corruption*
- *Strengthen the capacity and capability of the municipality to address the needs of the people*

Over the past years South Africa has been grappling with corruption which needs to be rooted out. National Treasury and the Department of Justice will work swiftly to support the establishment of the new investigating Directorate of the NPA

Provincial and municipal levels are working as best as they can to deal with rising wage costs and reduced transfers. Provincial treasuries and the municipalities have a partner in the National Treasury to work with on their constitutional obligations. Grants such as the Financial Management grant and the Municipal Systems Improvement grant are available. the Public Audit Excess Fee Bill tabled during the National Budget strengthens the Auditor General's role in municipalities.

We need to build a strong culture of payment in our community. Collecting the revenue due to the municipality is the underlying foundation of our democracy and of building our community. It is our duty to pay for services

especially if we can afford to do so. National Treasury will be leading a process to encourage those, including government departments who owe money to municipalities to pay for the services. Municipal bills must be paid on time.

The budget is all about the long-term vision of the municipality:

- To this extend we need to spend a lot on infrastructure by injecting more funding into infrastructure projects*
- We need to focus on getting ready for technology*
- Climate change is for real and affects us all, to this extent government is ensuring steps are undertaken at Eskom to allow for the expansion of renewable energy*

During 2018 the country was in a technical recession from which the country is still slowly recovering which makes the economic outlook vulnerable and financial growth will continue to be constrained. However, this can be managed through the steadfast implementation of reforms and positive policy directions.

We need to control out debt, especially in areas such as controlling our wage bill and stimulating the economy. The municipality needs to follow the example of Provincial departments in managing the appointment of critical staff to ensure that services are delivered to the people.

These are difficult times for the municipality as we are still losing money yet our responsibilities are not diminishing. We had to cut our expenditure budget with the least impact on the citizens of Abaqulusi.

All departmental revenue budgets need to be assessed and where found to be too conservative these departments need to increase their budgets.

Due to budget cuts it was not possible to allocate any funds to new priorities, departments were encouraged to reprioritise their budgets to ensure that all key projects are sufficiently funded.

The cost cutting measures remain in place and are now more than ever important and we need to continually look for efficiency savings. Every cent saved through cost cutting allows us to redirect funds to service delivery priorities.

COGTA will continue to co-ordinate support, support good governance and enhance financial management in municipalities, provide support and build capacity as well as provide support interventions in various municipalities placed under administration as per Section 139 of the Constitution. The department will also continue to support the installation and recognition of the Amakhosi. The main focus of COGTA is on accelerating economic growth, managing the implementation of service delivery programmes relating to electricity, water and sanitation, indigent policies (used for keeping record of all households that qualify for free basic services), will continue to be a priority, as will supporting and maintaining functional Disaster Management Centres, and providing assistance to districts and sector departments with disaster risk management planning.

In terms of job creation, the Department of Public Works will continue to ensure that EPWP generates more work opportunities to contribute meaningfully to poverty alleviation. The programme will be extended to more beneficiaries with disabilities and will assist beneficiaries in establishing co-operatives.

Provincial Treasury will continue to play its role for financial governance for general oversight of all departments, municipalities and public entities, internal audit, supply chain management, as well as support for transversal financial systems. The main aim is to attain improved provincial audit outcomes, to ensure on budget spending, and to remain cash positive. Risk based audits with specific focus on overall good governance will be performed. Departments will continue to be assisted in terms of ensuring that risk assessments are performed. A cash management system tool will be implemented in departments and public entities to assess whether the recommendations as contained in forensic reports are being implemented. The role of Treasury in terms of the SONA tasks is to fight corruption and to strengthen the capacity and capability of the state.

Provincial Treasury has been identified as a key player in supporting the radical economic transformation programme in the province through the implementation of a progressive supply chain management regime. To this end, Provincial Treasury will closely monitor and report on the extent that the Preferential Procurement Policy Framework Act (PPPFA) is implemented in the drafting of tenders. Support will also be provided to assist departments in the interpretation and implementation of the PPPFA regulations in order to address the economic imbalances that persist in the public procurement space in KZN.

Service providers must build what they promised at a reasonable rate.

At the Strategic Planning Session, the municipality developed the vision “To be the progressive, prosperous and sustainable economic hub of Zululand by 2035”

The mission statement developed “By creating a conducive environment focused on agricultural, industrial, tourism development in order to attract investment and provision of sustainable basic service delivery”

The Abaqulusi Municipality undertakes to conduct its daily duties incorporating the following core values:

- *Integrity*
- *Transparency*
- *Fairness*
- *Competitiveness*
- *Honesty*
- *Courage*
- *Accountability*
- *Ethical*
- *Time bound*

The goals set by the Abaqulusi Municipality include but are not limited to:

- *Reducing levels of infrastructure backlogs by providing basic services, facilities and maintaining existing infrastructure*

- Empowering and capacitating institutional structures and promotion of transparent cooperative governance
- Ensure sound financial management and accountability
- Ensure transparency, accountability and community involvement in municipal affairs
- To promote socio-economic growth and job opportunities
- To redress the spatial imbalances and promote sustainable environmental planning

Abaqulusi Municipality is committed as the sphere of government closest to the people to ensure it delivers effective service delivery to improve the quality of life

Although the municipality has some financial challenges and to ensure a better and safe life for all and in keeping with the cost containment measures regulated by the National Treasury, the municipality will be adopting a bold and radical approach in its revenue enhancement and expenditure programs. As a matter of urgency, the municipality will be considering the following:

- ✓ Clean up and compile a credible consumer database
- ✓ Disconnect fraudulent consumers, in all respects
- ✓ Provide and replace water meters in areas where there are no meters
- ✓ Ration water to consumers
- ✓ Migrate to solar street lighting
- ✓ Clean up the indigent register
- ✓ Source funding from National Departments
- ✓ Rehabilitate our environment
- ✓ Improve tourist attractions
- ✓ Make a foot print on local economic development
- ✓ Deal with employment costs specifically positions that are not budgeted for
- ✓ Review all by-laws, policies and standard operating procedures to ensure alignment with mSCOA
- ✓ Use funds for purposes they are meant for and have time-lined implementation plans
- ✓ S&T usage needs verification and approval. Fraudulent claims should stop
- ✓ Ward IDP

Highlights

The highlights of the 2018/2019 financial year are:

- The total operating revenue received for the 1st 6 months is 18% more than the budgeted target
- The collection rate has remained constant averaging 90%
- Revenue for electricity and water when compared to the previous financial year was only 10% below budget compared to 20,77% and 89,9% respectively
- Operating expenditure is below budget
- Overtime has reduced

I would like to express my appreciation to the members of the Executive Council for their valuable inputs. Collectively difficult by informed decisions were made on how best to serve our community. Thank you to all members of this Council, including all representatives of all political parties and all members of the administration for their contributions made. A budget is defined as “a plan for spending money wisely” and the

administration under the Municipal Manager, the CFO and his team are trying to install strict fiscal discipline. I would further like to thank all members of the public who assisted and took part in putting the municipality on the winning path. Every input, suggestion and all active participation is valued. Abaqulusi Municipality is an example of what can be achieved with a partnership of an active and participating community and a responding Council. We must never forget that this is the purpose of local government and that we are mere servants placed here to serve our community. I would also like to thank all sectors of the community who still need upgrading of services and facilities who have been patiently waiting with us to achieve it. Trust us we are equal to the task.

Mr Speaker I am humbled by the huge task entrusted to me as leader of this Council and the opportunity to table this Draft Budget to better serve our people. My team and I would like to ensure every citizen of Abaqulusi that we shall work tirelessly and leave no stone unturned to create a community of excellence for all with the funds entrusted to us. Trust us we will gradually achieve this. This is a budget that plants a seed for the future growth and it is our duty to ensure the seed grows strong and healthy.

I would like to make the following recommendations:

1. The Council of Abaqulusi Local Municipality, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) notes and adopts:
 - 1.1. The Draft Annual Budget of the municipality for the Financial Year 2019/20 and the Multi-Year and Single-Year Capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21; and
 - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22.
 - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 1.2.1. Budgeted Financial Position as contained in Table 23;
 - 1.2.2. Budgeted Cash Flows as contained in Table 24;
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25;
 - 1.2.4. Asset management as contained in Table 26; and
 - 1.2.5. Basic service delivery measurement as contained in Table 27.

2. *The Council of Abaqulusi Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2019 the proposed tariffs of Abaqulusi Municipality*
3. *To give proper effect to the municipality's annual budget, the Council of Abaqulusi Local Municipality approves:*
 - 3.1. *That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by Section 8 of the Municipal Budget and Reporting Regulations.*
4. *The Council of Abaqulusi Local Municipality approves and adopts with effect from 1 July 2019 the following budget related policies:*
 - a) *The tariffs policy in terms of section 74 of the Municipal Systems Act*
 - b) *The rates policy in terms of section 3 of the Municipal Property Rates Act*
 - c) *The credit control and debt collection policy in terms of section 96 of the Municipal Systems Act*
 - d) *The cash management and investment policy in terms of section 13(2) of the Act*
 - e) *A borrowing policy complying with Chapter 6 of the Act*
 - f) *A funding and reserves policy*
 - g) *A policy related to the long-term financial plan*
 - h) *The supply chain management policy in terms of section 111 of the Act*
 - i) *Any policies dealing with the management and disposal of assets*
 - j) *Any policies dealing with infrastructure investment and capital projects, including the policy governing the planning and approval of capital projects and on developer contributions for property developments*
 - k) *The indigent policy of the municipality*
 - l) *Any policy relating to the provision of free basic services*
 - m) *Any policy related to budget implementation and monitoring including the shifting of funds within votes, the introduction of adjustment budgets, unforeseen and unavoidable expenditure and management and oversight*
 - n) *Any policy relating to managing electricity and water including the management of losses and promoting conservation and efficiency*
 - o) *Any policies relating to personnel including policies on overtime, vacancies and temporary staff*
 - p) *Any policies dealing with entities*
 - q) *Any other budget related or financial management policies of the municipality*
 - r) *Performance Management Policy Framework*

Council Resolutions

On 28 March 2019 the Council of Abaqulusi Local Municipality met in the Council Chambers of Abaqulusi Municipality to consider the draft annual budget of the municipality for the financial year 2019/20. The Council noted the following draft resolutions:

5. The Council of Abaqulusi Local Municipality, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - 5.1. The Annual Budget of the municipality for the Financial Year 2019/20 and the Multi-Year and Single-Year Capital appropriations as set out in the following tables:
 - 5.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
 - 5.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
 - 5.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21; and
 - 5.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22.
 - 5.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 5.2.1. Budgeted Financial Position as contained in Table 23;
 - 5.2.2. Budgeted Cash Flows as contained in Table 24;
 - 5.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25;
 - 5.2.4. Asset management as contained in Table 26; and
 - 5.2.5. Basic service delivery measurement as contained in Table 27.
6. The Council of Abaqulusi Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2019 the proposed tariffs of Abaqulusi Municipality
7. To give proper effect to the municipality's annual budget, the Council of Abaqulusi Local Municipality approves:
 - 7.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by Section 8 of the Municipal Budget and Reporting Regulations.

8. *The Council of Abaqulusi Local Municipality approves and adopts with effect from 1 July 2019 the following budget related policies:*

- s) The tariffs policy in terms of section 74 of the Municipal Systems Act*
- t) The rates policy in terms of section 3 of the Municipal Property Rates Act*
- u) The credit control and debt collection policy in terms of section 96 of the Municipal Systems Act*
- v) The cash management and investment policy in terms of section 13(2) of the Act*
- w) A borrowing policy complying with Chapter 6 of the Act*
- x) A funding and reserves policy*
- y) A policy related to the long-term financial plan*
- z) The supply chain management policy in terms of section 111 of the Act*
- aa) Any policies dealing with the management and disposal of assets*
- bb) Any policies dealing with infrastructure investment and capital projects, including the policy governing the planning and approval of capital projects and on developer contributions for property developments*
- cc) The indigent policy of the municipality*
- dd) Any policy relating to the provision of free basic services*
- ee) Any policy related to budget implementation and monitoring including the shifting of funds within votes, the introduction of adjustment budgets, unforeseen and unavoidable expenditure and management and oversight*
- ff) Any policy relating to managing electricity and water including the management of losses and promoting conservation and efficiency*
- gg) Any policies relating to personnel including policies on overtime, vacancies and temporary staff*
- hh) Any policies dealing with entities*
- ii) Any other budget related or financial management policies of the municipality*
- jj) Performance Management Policy Framework*

The MFMA Circular No 72 indicates that all municipalities must formulate service Level Standards which must form part of the 2019/20 tabled MTREF budget documentation. The Service Level Standards need to be tabled before the Council for formal adoption.

The setting of standards is an integral part of the service delivery value chain. It provides transparency in understanding performance indicators and strengthens the entire performance management system. In addition, it ensures accountability on the part of the officials responsible for providing the service.

Local government is mostly classified in the service delivery and governance category and as such needs to be clear on what the public at large can expect as a service delivery standard. Rate payers must be placed in a position by which they are able to measure the service outputs against the predetermined service standards. This also serves as a performance rating instrument at an organisational and individual level.

It is for this reason that the municipality must adopt service standards as part of our strategic objectives and report on the achievements.

The service standards must at a minimum incorporate the administrative, technical and economic development categories of the municipality.

The following are to be considered for use:

Administrative service standards

- *Turnaround time in dealing with correspondence received*
- *Turnaround time in opening a consumer account*

Technical service standards

- *Turnaround time in dealing with reported incidents (water leakage, potholes, power outages, etc.)*
- *Turnaround time in restoring water and electricity connectivity*

Economic development service standards

- *Turnaround time in processing rezoning applications*
- *Turnaround time in processing building plans*
- *Turnaround time in processing special business applications*

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate funds will be transferred from low- to high priority programmes so as to maintain sound financial stewardship. A critical review will also be undertaken of expenditure on non-essential and 'nice-to-have' items. 2019/20 MTREF was drafted in context of an economy that is not projected to grow supported.

The draft budget for the 2019/20 MTREF period is based on the realisation that revenues and cash flows are expected to remain under pressure in 2019/20 and the municipality must adopt a conservative approach when projecting expected revenues and cash receipts. The municipality must further in terms of MFMA Circular 93 & 94 carefully consider the affordability of tariff increases especially in relation to domestic consumers which makes up the bulk of the municipality's revenue base whilst considering the level and quality of services versus the associated cost.

The draft budget was compiled by ensuring that the financial management processes are transparent, aligned to the accountability cycle and facilitate good governance that is accountable to the local community. Public perception shows high levels of unhappiness with service delivery and perceived corruption at municipalities and sound leadership is required as well as measures put in place to address mismanagement by implementing effective systems to measure, monitor and evaluate performance.

The draft budget supports the provision of basic services to the communities, facilitating social and economic development, promoting a safe and healthy environment in a sustainable manner.

The main challenges experienced during the compilation of the 2019/20 MTREF can be summarised as follows:

- Ensuring the timely delivery of capital programmes (eliminate under-spending of capital budgets) and to review all by-laws and development approval processes with a view of removing any bottlenecks to investment and job creation.
- Under spending on repairs and maintenance – often seen as a way to reduce short term spending which shortens the life of assets, increases long term maintenance and refurbishment costs and causes a deterioration in the reliability of our infrastructure
- Spending on non-priorities – including unnecessary travel, luxury furnishings, excessive catering and the use of consultants to perform routine tasks.
- Not just employing more people without any reference to the level of staffing required delivering effective services. The municipality must through fully participate in the Expanded Public Works Program focus on maximizing its contribution to job creation

by ensuring that service delivery and capital projects use labour intensive methods wherever appropriate and implement intern's programmes to provide young people with on-the-job training.

- Collecting outstanding debts – this requires political commitment, sufficient administration capacity and pricing policies that ensure that bills are accurate and affordable.
- Pricing services correctly – the full cost of services must be reflected in the tariffs charged to consumers who can afford to pay. Overly generous subsidies and rebates that result in services running at a loss cannot be entertained.

The following budget principles and guidelines directly informed the compilation of the draft 2019/20 MTREF:

- The 2018/19 Adjustment Budget priorities and targets, as well as the base line allocations contained in the Adjustment Budget.
- Service level standards were used to inform the measurable objectives, targets and backlog eradication goals.
- Tariff and property rate increases should be affordable and try not to exceed inflation as measured by the CPI, except where the price increases in the services that are beyond the control of the municipality, i.e. ESKOM.
- Cost Containment Regulations have been implemented to curtail spending in terms of the regulations.
- No budget has been allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the Division of Revenue Act gazette.

National Treasury has issued a Circular (MFMA Circular No 64) giving guidance to municipalities of what should be done to maximise the revenue generating potential of existing sources of revenue such as property rates and trading services. Further Circulars will be issued by National Treasury to guide municipalities in developing credible revenue frameworks by reaffirming the fundamental principles of costing, revenue management and revenue enhancement.

Revenue management is described as a fundamental and routine financial management function of the municipality's revenue generating business that includes billing and collection activities in respect of trading services and property rates.

Revenue enhancement is about improving by making more, in the case of municipal revenue it is associated with increasing the value of revenue generated. Revenue enhancement can be broken into two components. The first being national policy developments that give rise to additional sources of revenue from government (grant funding) and the second component is the ability of the municipality to grow its own revenue base.

MFMA Circular No 58 advises that the municipality must ensure that the billing systems are accurate; accounts are sent out to residents on a monthly basis and follow-up to collect revenue owed to the municipality.

In terms of MFMA Circular No 64 the main responsibility of the municipality is to deliver services. In terms of Section 75A of the Municipal Systems Act the municipality is allowed to levy and recover fees, charges or tariffs in respect of municipal service delivery functions and recover collection charges and interest on outstanding amounts. The municipality must adopt by-laws to give effect to the implementation and enforcement of the tariff policies.

Revenue generation is everyone's responsibility, not just that of the revenue Section. The municipality must effectively manage all functions that impact protecting and growing the revenue base. The implementation of internal controls along the revenue value chain will aid effective data handovers; utilising system data validation mechanisms and ensuring that service level standards are fundamental to ensuring the integrity of the billing data but are advised to stay away from costly data cleansing exercises.

The following are fundamental to maximising the existing revenue:

- Billing system that correctly reflects all billing and customer information required to issue accurate accounts to consumers.
- All property within the municipal jurisdiction must be correctly valued and the billing system must be updated with any change in property ownership. This is necessary to protect and grow the property rates base.
- Effective business processes to ensure new property development as well as improvements to existing properties are valued as required.
- Correct categorisation of properties.
- Water and electricity meter numbers must be recorded correctly and linked to corresponding property.
- Continual maintenance of water and electricity meters to minimise losses due to leakages or incorrectly metered consumption.
- Accurate meter reading and minimising the amount of meter reading estimates.
- Refuse and sanitation service charges must be included in all billing records and the municipality must ensure these services are not run at a loss.
- Billing queries to be resolved within reasonable timeframes.
- Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on it.

The Circular further advises municipalities to table "surplus" budgets. To achieve this the municipality must ensure cost reflective tariffs; operation efficiencies; maximising revenue regenerating potential of own revenue sources and a productive workforce and sound decision making to ensure that the limited financial resources are spent wisely so that value for money is achieved.

National Treasury's MFMA Circular No. 93 and 94 was used to guide the compilation of the Draft 2019/20 MTREF.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2019/20 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the Draft 2019/22 MTREF

KZN 263 - Table A4 Budgeted Financial Performance

Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
		Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
R thousands	1			
Revenue By Source				
Property rates	2	78 790	84 305	89 363
Service charges - electricity revenue	2	144 356	154 460	163 728
Service charges - water revenue	2	37 020	39 611	41 988
Service charges - sanitation revenue	2	28 551	30 549	32 382
Service charges - refuse revenue	2	19 920	21 315	22 594
Service charges - other		-	-	-
Rental of facilities and equipment		1 425	1 525	1 616
Interest earned - external investments		1 000	1 070	1 134
Interest earned - outstanding debtors		12 000	12 840	13 610
Dividends received		-	-	-
Fines, penalties and forfeits		4 350	4 655	4 934
Licences and permits		4 903	5 246	5 561
Agency services		-	-	-
Transfers and subsidies		179 813	187 652	202 543
Other revenue	2	1 206	1 290	1 368
Gains on disposal of PPE		-	-	-
Total Revenue (excluding capital transfers and contributions)		513 333	544 518	580 821
Expenditure By Type				
Employee related costs	2	153 448	164 190	174 041
Remuneration of councillors		18 300	19 581	20 756
Debt impairment	3	-	-	-
Depreciation and asset impairment	2	71 866	76 897	81 511
Finance charges		-	-	-
Bulk purchases	2	172 000	184 040	195 082
Other materials	8	13 621	14 575	15 449
Contracted services		66 799	70 939	75 196
Transfers and subsidies		4 200	4 494	4 764
Other expenditure	4,5	38 439	41 129	43 597
Loss on disposal of PPE		-	-	-
Total Expenditure		538 673	575 845	610 396
Surplus/(Deficit)		(25 340)	(31 327)	(29 574)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	6	35 278	37 121	39 772
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educ Institutions)		-	-	-
Transfers and subsidies - capital (in-kind - all)		-	856	907

		9 938	6 650	11 105
Surplus/(Deficit) after capital transfers and contributions				
Taxation		-	-	-
Surplus/(Deficit) after taxation		9 938	6 650	11 105
Attributable to minorities		-	-	-
Surplus/(Deficit) attributable to municipality		9 938	6 650	11 105
Share of surplus/ (deficit) of associate	7	-	-	-
Surplus/(Deficit) for the year		9 938	6 650	11 105

Total operating revenue has increased by R 15, 5 million for the 2019/20 financial year when compared to the 2018/19 Adjustment Budget. For the two outer years, operational revenue will increase, equating to a total revenue growth of R 96, 6 million over the MTREF when compared to the 2018/19 financial year.

Total operating expenditure for the 2019/20 financial year has been appropriated at R 538,6 million and translates into a budgeted operating surplus of R 9,9 million. When compared to the 2018/19 Adjustment Budget, operational expenditure has increased by 6% in the 2019/20 budget and 6% increases for each of the respective outer years of the MTREF. The budget for bulk purchases to Eskom has increased to 9,4% as announced by NERSA and the employment budget has increased by 7% as per the salary agreement of CPI + 1,5%

The capital budget of R 37,1 million for 2019/20 is less when compared to the 2018/19 Adjustment Budget. The decrease is due to no capital funding from own revenue being allocated for 2019/2020. The capital program increases to R39 million in the 2020/21 financial year due and then increases to R 41,8 million in 2021/22 due to an increase in MIG. Currently no capital budget will be funded from internally generated funds in each of the financial years of the MTREF but will be relouped before the tabling of the final document in May 2019. Capital from government grants and transfers amounts to R 37,1 million which is R701,000 more than the 2018/19 financial year. The R19 million allocated to the municipality from INEP is not shown as capital as the municipality is assisting Eskom with electrification in Eskom areas therefore the funds are shown under general expenses as the project does not become a capital item of the municipality but is handed back to Eskom on completion.

Operating Revenue Framework

For Abaqulusi Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipal area and continued economic development;
- Efficient revenue management, which aims to ensure a 90% annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the Draft 2019/20 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by Main Revenue Source A4**KZN 263 - Table A4 Budgeted Financial Performance**

Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
R thousands	1	Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
Revenue By Source				
Property rates	2	78 790	84 305	89 363
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Dividends received		-	-	-
Fines, penalties and forfeits		4 350	4 655	4 934
Licences and permits		4 903	5 246	5 561
Agency services		-	-	-
Transfers and subsidies		179 813	187 652	202 543
Other revenue	2	1 206	1 290	1 368
Gains on disposal of PPE		-	-	-
Total Revenue (excluding capital transfers and contributions)		513 333	544 518	580 821

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant % of the revenue basket for the Municipality.

Service charge revenues comprise more than 44,78% of the total revenue mix. In the 2019/20 financial year, revenue from services charges is expected to total R 229,8 million. This increases to R 245,9 million and R260,6 million in the respective financial years of the MTREF. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in Table 64 KZN263 SA1.

Property rates is the second largest revenue source totalling 15,35% or R 78,7 million rand and increases to R89,3 million by 2021/22.

The third largest sources are “other revenue” which consists of various items such as income received from permits and licenses, building plan fees, connection fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related. The anticipated revenue from other revenue is R 1,2 million.

Operating grants and transfers totals R 179,8 million in the 2019/20 financial year and increases to R202,5 million by 2021/22. Note that the year-on-year growth is 6% in the two outer years.

The municipality hopes to receive additional funding which will be applied to address:

- Compensation for rising costs of providing free basic water and electricity to poor households.
- Accelerate provision of access to clean water through bulk and reticulation projects.
- Accelerate provision of access to electricity and improving the sustainability of access through the refurbishment of key infrastructure.
- Expand the collection and use of data on the condition of municipal roads.
- Increase the number of interns with infrastructure-related skills. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts – SA18 – Transfer & Grant Receipts

KZN263 Abaqulusi - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand										
RECEIPTS:	1, 2									
<u>Operating Transfers and Grants</u>										
National Government:		129 193	129 913	135 462	(164 890)	157 541	150 041	172 970	183 021	195 969
Local Government Equitable Share		106 246	106 890	117 257	(145 195)	130 276	130 276	148 281	160 034	173 038
Finance Management		1 600	1 625	1 700	(1 700)	1 770	1 770	2 235	2 667	2 931
Municipal Systems Improvement		930	–	–	(1 700)	1 700	1 700	1 800		
Integrated National Electrification Programme		19 000	20 000	15 000	(15 000)	22 500	15 000	19 000	20 320	20 000
EPWP Incentive		1 417	1 398	1 505	(1 295)	1 295	1 295	1 654		
Other transfers/grants [insert description]										
Provincial Government:		–	4 068	4 052	(1 700)	4 303	4 111	4 986	4 732	5 010
Sport and Recreation				–	–	50	50			
Arts & Culture - Museum			175	183	–	192		202	213	225
Arts & Culture - Library - Provincial			3 714	2 963	–	3 111	3 111	3 267	3 430	3 619
Arts & Culture - Community Library			179	906	(1 700)	950	950	1 017	1 089	1 166
COGTA - Building Plans Mgmt System								500		
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	–	–	–	–	–
[insert description]										
Total Operating Transfers and Grants	5	129 193	133 981	139 514	(166 590)	161 844	154 152	177 956	187 753	200 979
<u>Capital Transfers and Grants</u>										
National Government:		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Municipal Infrastructure Grant (MIG)		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865

Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Capital Transfers and Grants	5	39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
TOTAL RECEIPTS OF TRANSFERS & GRANTS		168 759	164 136	177 254	(130 156)	198 278	190 586	215 091	226 828	242 844

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. The municipality must however take into account the labour and other input costs of services, the need to ensure financial sustainability, local economic conditions, the affordability of services, the indigent policy. An appropriate balance between the interests of poor households, other consumers and financial sustainability needs to be maintained as excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of ESKOM bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability. Based on NERSA's approval of a 9,4% increase to Eskom as per NERSA announcement. The municipality has allowed for increases between 3 and 9%.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. There is no percentage increase for property rates due to the implementation of the new property rates register which increases the current value from R65,8 million to R78,4 million. All households receive a rebate on the first R 15,000 and indigent residents a further R 65,000.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R 15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 100 % rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 % (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross

income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:

- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
 - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
 - The property must be categorized as residential.
- The Municipality may award a 100% grant-in-aid on the assessment rates of rateable properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2019/20 financial year based on a 0% increase from 1 July 2019 is contained below:

Table 4 Comparison of proposed rates to be levied for the 2019/20 financial year

Category	Current Tariff (1 July 2018)	Proposed tariff (from 1 July 2019)
	C	C
<i>Residential properties</i>	0,0084341	0,0084341
<i>State owned properties</i>	0,0210853	0,0210853
<i>Business & Commercial</i>	0,0210853	0,0210853
<i>Agricultural</i>	0,0021087	0,0021087
<i>Vacant land</i>	0,0210853	0,0210853
<i>Municipal rateable – Residential</i>	0,0084341	0,0084341
<i>Industrial</i>	0,0210853	0,0210853
<i>Non-permitted use/Illegal usage</i>	0,0210853	0,0210853
<i>Public benefit organisation properties</i>	0,0021087	0,0021087
<i>Special consent</i>	0,0210853	0,0210853

1.3.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariffs charged are able to cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure. This has not been possible due to the severe drought in the Abaqulusi area.

To mitigate the need for water tariff increases, municipalities are encouraged to put in place appropriate strategies to limit water losses to acceptable levels. Water losses have increased from 54% in 2015/16 to 71% in 2016/17 and decreased to 48% in 2017/18.

Zululand District Municipality as well as Abaqulusi municipality has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that the current infrastructure is unlikely to sustain its long-term ability to supply water and the District Municipality will have no other choice but to provide funding for infrastructure upgrades.

A tariff increase between 4 and 6% from 1 July 2019 for water is proposed. In addition, 6 kl water per 30-day period will again be granted free of charge to all indigent community members.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table 5 Proposed Water Tariffs

CATEGORY	CURRENT TARIFFS 2018/19	PROPOSED TARIFFS 2019/20
	Rand per kl	Rand per kl
RESIDENTIAL		
(i) 0 to 6 kl per 30-day period	10.60	11.03
(ii) 6.01 to 15 kl per 30-day period	11.47	12.04
(iii) 15.01 to 30 kl per 30-day period	13.18	13.97
(iv) More than 30.01 per 30-day period	15.00	15.00
BUSINESS		
(i) 0 to 6 kl per 30-day period	10.60	11.03
(ii) 6.01 to 15 kl per 30-day period	11.47	12.04
(iii) 15.01 to 30 kl per 30-day period	13.18	13.97
(iv) More than 30.01 per 30-day period	15.00	15.00

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

Table 6 Comparison between current water charges and increases (Domestic)

Monthly Consumption	Current amount payable	Proposed amount payable	Difference (Increase)	Percentage change
kℓ	R	R	R	
6	63.60	66.18	2.58	4%
10	114.70	120.40	5.70	5%
20	263.60	279.40	15.80	6%
30	395.40	419.10	23.70	6%
50	750.00	750.00	0	
80	1200.00	1200.00	0	
100	1500.00	1500.00	0	

The tariff structure for this financial year has changed to include another block tariff. The tariff structure is designed to charge higher levels of consumption a higher rate, steadily increasing to a rate of R15.00 per kilolitre for consumption in excess of 30kℓ per 30-day period.

Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. Eskom increase in the bulk electricity tariff to municipalities which will be effective from 1 July 2019 approved by NERSA of 9,4% increase guidelines for municipalities.

NERSA for the past 5 years in a row has allowed Eskom to increase its tariff to municipalities higher than what municipalities may charge their consumers and this continues to have a negative impact on the municipality's revenue from electricity and is starting to impact on the maintenance of the electrical infrastructure and the Section continues to show a deficit. An analysis of the municipality's consumption patterns is being done to calculate more accurate tariffs and submitted to NERSA for approval. The tariff increase is between 3 and 9%. The Section is supposed to be ring fenced, but due to the theft of electricity due to tampering and bypassing of meters is not possible.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on the water charges for domestic customers:

Table 7 Comparison between current electricity charges and increases (Domestic)

DESCRIPTION	APPROVED TARIFFS 2018/2019	PROPOSED TARIFFS 2019/2020	PROPOSED TARIFFS 2020/2021	PROPOSED TARIFFS 2021/2022
		3 - 9%	6%	6%
<u>Domestic (Conventional)</u>				
<i>Basic charge</i>	R 106.84	R 113.25	R 120.05	R 127.25
<i>Cost per unit kWh - 0-50kwh - step tariff 3%</i>	R 0.91	R 0.94	R 0.99	R 1.05
<i>Cost per unit kWh - 051-350kwh -step tariff 4%</i>	R 0.97	R 1.02	R 1.08	R 1.15

DESCRIPTION	APPROVED TARIFFS 2018/2019	PROPOSED TARIFFS 2019/2020	PROPOSED TARIFFS 2020/2021	PROPOSED TARIFFS 2021/2022
		3 - 9%	6%	6%
<i>Cost per unit kWh - 351-600kwh - step tariff 5%</i>	R 1.65	R 1.74	R 1.84	R 1.94
<i>Cost per unit kWh - >600kwh - step tariff 9%</i>	R 1.95	R 2.12	R 2.25	R 2.39

The step tariff advised by NERSA and implemented since July 2011 results that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. Most of the suburbs and inner municipality reticulation network was designed or strengthened in the early 1980's with an expected 20-25-year life-expectancy. The upgrading of the Municipality's electricity network has therefore become a strategic priority, especially the substations and transmission lines. Electricity losses have decreased from 47,41% in 2015/16 to 27,8% in 2016/17 and for 2017/18 decreased to 22%.

The approved budget for the Energy Section can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). It is estimated that special funding for electricity bulk infrastructure to the amount of R114,6 million per year for five years will be necessary to steer the Municipality out of this predicament. It must be noted that ESKOM will receive an amount of R 53,7 million to perform electrification and this will then have to be maintained by the municipality.

In addition, the Section must raise awareness and promote behaviour change through communication and education to ensure the 10% reduction in energy consumption is achieved. A renewable and cleaner energy plan has to be developed, monitored, evaluated and updated annually. To upgrade street lights to LED fittings and other energy efficiency projects is a costly exercise for which funding must be sourced.

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers.

Sanitation and Impact of Tariff Increases

A tariff increase of 6% for sanitation from 1 July 2019 is proposed. This Section is currently operating at a deficit and it is generally accepted that all service departments should at least break even. This is based on the input cost assumptions related to water. It should be noted that electricity costs contribute approximately 15% of waste water treatment input costs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation (100% of 6 kl water) will be applicable to registered indigents; and
- The total revenue expected to be generated from rendering this service amounts to R28,5 million for the 2019/20 financial year.

Table 8 Comparison between current sanitation charges and increases

CATEGORY	CURRENT TARIFF 2018/19		PROPOSED TARIFF 2019/20	
	% DISCHARGED	TARIFF PER kl	% DISCHARGED	TARIFF PER kl
		R		R
0 – 30 kl per 30-day period	75	8.25	75	8.75
30.01 – 99 kl per 30-day period	75	9.51	75	10.08
99.01 and above kl per 30-day period	75	10.23	75	10.84

The following table shows the impact of the proposed increases in sanitation tariffs on the sanitation charges for a single dwelling-house:

Table 9 Comparison between current sanitation charges and increases, single dwelling- houses

Monthly sanitation consumption kl	Current amount Payable R	Proposed amount Payable R	Difference (6% increase) R
30	247.50	262.35	14.85
30.01 to 99	656.19	695.56	39.37
99.01 and above	1012.77	1073.54	60.77

Waste Removal and Impact of Tariff Increases

The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The service of refuse collection is outsourced which is the main contributor of expenditure as well as the cost of remuneration. This Section is budgeted to have a deficit. It is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models.

A 6% increase in the waste removal tariff is proposed from 1 July 2019. Higher increases will not be viable in 2019/20 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher can be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2019:

Table 10 Comparison between current waste removal fees and increases

	WASTE REMOVAL 2018/19	WASTE REMOVAL 2019/20
<i>Tariff per container/household per month or part of a month: Areas serviced by means of: (Tariff is multiplied by the number of service rounds per week and the number of containers/households.)</i>	<i>Per month (R)</i>	
<i>Residential</i>	<i>97.90</i>	<i>103.77</i>
<i>Businesses per container</i>	<i>302.60</i>	<i>320.76</i>
<i>Businesses bulk container</i>	<i>3034.00</i>	<i>3216.00</i>

Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to a 6%, increase, except for electricity which increases between 3 and 9% for all households including indigent households.

In terms of Section 64 2(g) of the MFMA a Municipality must for the purposed of the sub-Section take reasonable steps to ensure

- (g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget related policies and within a prescribed framework;

Table 11 KZN263 Table SA14 – Household Bills

KZN263 Abaqulusi - Supporting Table SA14 Household bills

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20 % incr.	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Rand/cent											
Monthly Account for Household - 'Middle Income Range'	1										
Rates and services charges:											
Property rates		508.55	542.11	574.64	603.37	603.37	603.37	–	610.00	646.60	685.40
Electricity: Basic levy		64.49	69.42	73.59	106.84	106.84	106.84	6.0%	113.25	120.05	127.25
Electricity: Consumption		1 579.12	1 699.76	1 801.75	1 900.85	1 900.85	1 900.85	6.0%	1 995.90	2 115.65	2 242.59
Water: Basic levy		36.54	40.26	42.72	45.02	45.02	45.02	6.0%	47.72	50.58	53.62
Water: Consumption		257.97	–	300.80	317.34	317.34	317.34	6.0%	336.38	356.56	377.96
Sanitation		105.90	121.78	129.21	136.18	136.18	136.18	6.0%	144.35	153.01	162.19
Refuse removal		76.12	87.54	92.88	97.89	97.89	97.89	6.0%	103.76	110.00	116.60
Other											
sub-total		2 628.69	2 560.87	3 015.59	3 207.49	3 207.49	3 207.49	4.5%	3 351.36	3 552.45	3 765.61
VAT on Services		368.02	358.52	422.18	481.12	481.12	481.12	15.0%	502.70	532.87	564.84
Total large household bill:		2 996.71	2 919.39	3 437.77	3 688.61	3 688.61	3 688.61	4.5%	3 854.06	4 085.32	4 330.45
% increase/-decrease			(2.6%)	17.8%	7.3%	–	–		4.5%	6.0%	6.0%
Monthly Account for Household - 'Affordable Range'	2										
Rates and services charges:											
Property rates		282.21	300.84	318.89	334.83	334.83	334.83	–	400.00	424.00	449.44
Electricity: Basic levy		64.49	69.42	73.59	106.84	106.84	106.84	6.0%	113.25	120.05	127.25
Electricity: Consumption		676.18	727.84	771.51	813.94	813.94	813.94	5.0%	854.64	905.92	960.27
Water: Basic levy		36.54	40.26	42.72	45.02	45.02	45.02	6.0%	47.72	50.58	53.62
Water: Consumption		215.00	–	250.69	263.22	263.22	263.22	5.0%	276.38	292.96	310.54
Sanitation		105.90	121.78	129.21	136.18	136.18	136.18	6.0%	144.35	153.01	162.19
Refuse removal		76.12	87.54	92.88	97.89	97.89	97.89	6.0%	103.76	110.00	116.60
Other											
sub-total		1 456.44	1 347.68	1 679.49	1 797.92	1 797.92	1 797.92	7.9%	1 940.10	2 056.52	2 179.91
VAT on Services		203.90	188.68	235.13	269.69	269.69	269.69	15.0%	291.01	308.48	327.00
Total small household bill:		1 660.34	1 536.36	1 914.62	2 067.61	2 067.61	2 067.61	7.9%	2 231.11	2 365.00	2 506.91

% increase/-decrease			(7.5%)	24.6%	8.0%	-	-		7.9%	6.0%	6.0%
				-4.30	-0.68	-1.00	-				
Monthly Account for Household - 'Indigent' Household receiving free basic services	3										
Rates and services charges:											
Property rates		-	-	-	-	-	-	-	-	-	-
Electricity: Basic levy		64.49	69.42	73.59	106.84	106.84	106.84	6.0%	113.25	120.05	127.25
Electricity: Consumption		-	-	-	-	-	-	3.0%	-	-	-
Water: Basic levy		36.54	40.26	42.72	45.02	45.02	45.02	6.0%	47.72	50.58	53.62
Water: Consumption		105.90	-	123.54	129.72	129.72	129.72	3.0%	133.61	141.63	150.12
Sanitation		105.90	121.78	129.21	136.18	136.18	136.18	6.0%	144.35	153.01	162.19
Refuse removal		76.12	87.54	92.88	97.89	97.89	97.89	6.0%	103.76	110.00	116.60
Other											
sub-total		388.95	319.00	461.94	515.65	515.65	515.65	5.2%	542.69	575.27	609.78
VAT on Services		54.46	44.66	64.67	77.35	77.35	77.35	15.0%	81.40	86.29	91.47
Total small household bill:		443.41	363.66	526.61	593.00	593.00	593.00	5.2%	624.09	661.56	701.25
% increase/-decrease			(18.0%)	44.8%	12.6%	-	-		5.2%	6.0%	6.0%

Operating Expenditure Framework

The Municipality's expenditure framework for the draft 2019/20 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services;
- Strict adherences to the principle of **no project plan no budget**. If there is no business plan no funding allocation can be made; and
- Creation of job opportunities by the municipality thus an increase in staff costs.

The following table is a high-level summary of the Draft 2019/20 budget and MTREF (classified per main type of operating expenditure):

Table 12 Summary of operating expenditure by type Table A4 by standard classification item

KZN 263 - Table A4 Budgeted Financial Performance				
Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
R thousands	1	Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
Expenditure By Type	-			
Employee related costs	2	153 448	164 190	174 041
Remuneration of councillors		18 300	19 581	20 756
Debt impairment	3	-	-	-
Depreciation and asset impairment	2	71 866	76 897	81 511
Finance charges		-	-	-
Bulk purchases	2	172 000	184 040	195 082
Other materials	8	13 621	14 575	15 449
Contracted services		66 799	70 939	75 196
Transfers and subsidies		4 200	4 494	4 764
Other expenditure	4,5	38 439	41 129	43 597
Loss on disposal of PPE		-	-	-
Total Expenditure		538 673	575 845	610 396

Table 13 Summary of operating expenditure – Revenue by source -Table A4 by standard classification item**KZN 263 - Table A4 Budgeted Financial Performance**

Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
		Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
R thousands	1			
<u>Revenue By Source</u>				
Property rates	2	78 790	84 305	89 363
Service charges - electricity revenue	2	144 356	154 460	163 728
Service charges - water revenue	2	37 020	39 611	41 988
Service charges - sanitation revenue	2	28 551	30 549	32 382
Service charges - refuse revenue	2	19 920	21 315	22 594
Service charges - other		-	-	-
Rental of facilities and equipment		1 425	1 525	1 616
Interest earned - external investments		1 000	1 070	1 134
Interest earned - outstanding debtors		12 000	12 840	13 610
Dividends received		-	-	-
Fines, penalties and forfeits		4 350	4 655	4 934
Licences and permits		4 903	5 246	5 561
Agency services		-	-	-
Transfers and subsidies		179 813	187 652	202 543
Other revenue	2	1 206	1 290	1 368
Gains on disposal of PPE		-	-	-
Total Revenue (excluding capital transfers and contributions)		513 333	544 518	580 821
<u>Expenditure By Type</u>				
Employee related costs	2	153 448	164 190	174 041
Remuneration of councillors		18 300	19 581	20 756
Debt impairment	3	-	-	-
Depreciation and asset impairment	2	71 866	76 897	81 511
Finance charges		-	-	-
Bulk purchases	2	172 000	184 040	195 082

Other materials	8	13 621	14 575	15 449
Contracted services		66 799	70 939	75 196
Transfers and subsidies		4 200	4 494	4 764
Other expenditure	4,5	38 439	41 129	43 597
Loss on disposal of PPE		-	-	-
Total Expenditure		538 673	575 845	610 396
Surplus/(Deficit)		(25 340)	(31 327)	(29 574)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	6	35 278	37 121	39 772
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)		-	-	-
Transfers and subsidies - capital (in-kind - all)		-	856	907
		9 938	6 650	11 105
Surplus/(Deficit) after capital transfers and contributions				
Taxation		-	-	-
Surplus/(Deficit) after taxation		9 938	6 650	11 105
Attributable to minorities		-	-	-
Surplus/(Deficit) attributable to municipality		9 938	6 650	11 105
Share of surplus/ (deficit) of associate	7	-	-	-
Surplus/(Deficit) for the year		9 938	6 650	11 105

The budgeted allocation for employee related costs for the 2019/20 financial year totals R153,4million, which equals 28,49% of the total operating expenditure. The multi-year Salary and Wage Collective Agreement from SALGBC for municipalities of CPI + 1,5% so the municipality has budgeted for 7% for the 2019/2020 financial year and 6% in the outer two years. As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Finance Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was the inclusion of critical and strategically important vacancies. Excessive overtime has been observed by National Treasury during their analysis of municipal budgets and although it is considered acceptable as long as it related to essential services an excessively high allocation could be an indication of performance inefficiencies as it is an expensive form of remuneration easily abused. If National Treasury finds excessive overtime to be legitimate it will be an indication that the organisational structure is insufficiently funded and funds being rather appropriated against vacancies. The maximum percentage allowable for overtime is of total remuneration.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 90% and the Debt Write-off Policy of the Municipality. For the 2019/20 financial year this amount equates to R 6, 9 million and an amount of R 7, 3 for 2020/21 million which escalates to R7, 7 million by 2021/22. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R71,8 million for the 2019/20 financial and equates to 15,8% of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register.

Bulk purchases are directly informed by the purchase of electricity from ESKOM. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. ESKOM increase has been budgeted for at 9,4%.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure. For 2019/20 the percentage of this against the group of expenditure is 2,53% (R13,6 million) and continues to grow for the two outer years of which budget allocation is in excess of R 15,4 million by 2021/22.

Contracted services have increased for the Municipality for the 2018/19 financial year. As part of the compilation of the 2019/20 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2019/20 financial year, this group of expenditure totals R66,8 million and has escalated overall, clearly demonstrating the need to investigate these contracts before the 2020/21 financial year to try and apply cost containment measures. For the two outer years growth has been limited to 6%. As part of the process of identifying further cost efficiencies, a business process re-engineering project will commence in the 2019/20 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The

outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented. The reason for the escalation is the additional refuse services for the small towns where refuse was in the past not being collected and the additional security costs as more security guards had to be employed due to theft and damage of infrastructure. Further details relating to contracted services can be seen in Table 64 KZN263 SA1 (see page 100).

Other expenditure comprises of various line items such as insurances, telephone costs, bank charges, Subsistence and travelling, leasing of office equipment, vehicle leases and other costs relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 6% for 2019/20 and curbed at 6% for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Table 64 KZN263 SA1 (see page 100).

1.4.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2019/20 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by MFMA Circulars 93 and 94 as well as the outcome of the 2017/2018 audit qualification the municipality must budget for 8% of its expenditure budget to be allocated to repairs and maintenance and the on-going health of the municipality's infrastructure must be supported by an asset management plan. A further 40% of the municipal budget must be allocated to Capital for the renewal of existing assets and provide a detailed explanation and assurance that the budgeted amount is adequate to secure the on-going health of the municipality's infrastructure supported by reference to its asset management plan. The municipality in the state of local government finances and financial management has been accused of persistent under spending on capital and that the municipality is too reliant on capital grants. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 14 Operational Repairs and Maintenance Schedule SA1

Repairs and Maintenance by Expenditure Item	8							
Employee related costs								
Other materials		15 064	18 727	18 413	19 482	13 621	14 575	15 449
Contracted Services								
Other Expenditure								
Total Repairs and Maintenance Expenditure	9	15 064	18 727	18 413	19 482	13 621	14 575	15 449

During the compilation of the 2019/20 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the ageing of the Municipality's infrastructure and historic deferred maintenance. To this end, repairs and maintenance is allocated an amount of R 13,6 million which is less than the adjustment budget of 2018/2019 by R5,8 million and will increase in the other two years to R14,5 million to R15,4 million. During the 2018/19 Adjustment Budget this allocation was increased from R18,4 to R19,4 million owing to the challenges faced by the Municipality. Notwithstanding, as part of the 2019/20 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2019/20 equates to R 13,6 million in relation to the Adjustment Budget and continues to grow over the MTREF. In relation to the total operating expenditure, repairs and maintenance comprises of 2,53% for the respective financial years of the MTREF.

For the 2019/20 financial year, R13,6 million of total repairs and maintenance will be spent on infrastructure assets. Electricity infrastructure receives R 4 million, road infrastructure of R5 million, water R 3 million, sanitation R 1,6 million.

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy on an annual basis. The applications are strictly reviewed annually and this year tighter controls were implemented to ensure this service is given to only the poorest of the poor. Detail relating to free services, cost of free basis services, revenue foregone owing to free basic services as well as basic service delivery measurement is contained in Table 27 KZN263 A10 (Basic Service Delivery Measurement) on page 75.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The municipality's cost for the Free Basic Services is R 16,9 million.

Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Province: Municipality A - Table A5 Budgeted Capital Expenditure by Functional Classification and Funding

Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
R thousands	1	Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
Capital Expenditure - Functional				
Municipal governance and administration		-	-	-
Executive and council		-	-	-
Finance and administration		-	-	-
Internal audit		-	-	-
Community and public safety		12 429	-	-
Community and social services		12 429	-	-
Sport and recreation		-	-	-
Public safety		-	-	-
Housing		-	-	-
Health		-	-	-
Economic and environmental services		22 850	-	-
Planning and development		-	-	-
Road transport		22 850	-	-
Environmental protection		-	-	-
Trading services		-	-	-
Energy sources		-	-	-
Water management		-	-	-

Waste water management		-	-	-
Waste management		-	-	-
Other		-	-	-
Total Capital Expenditure - Functional	3	35 279	-	-
Funded by	-			
National Government		35 279	-	-
Provincial Government		-	-	-
District Municipality		-	-	-
Other transfers and grants		-	-	-
Transfers recognised - capital	4	35 279	-	-
Public contributions and donations	5			
Borrowing	6	-	-	-
Internally generated funds		-	-	-
Total Capital Funding	7	35 279	-	-

For 2019/20 no funds from internal funding has been appropriated for the development of infrastructure from internal funding and R 37,1 million from grant funding. In the outer years this amount also remains nil, but the figures will be relooked at before tabling the final document in May 2019 and R39 million and R41,8 million from grant funding respectively for each of the financial years. Roads, storm water, bus route and other rural projects receives the highest allocation of R37,1 million in 2019/20.

Total net assets represent 100 % or R37,1 million of the total capital budget. Further detail relating to asset classes and proposed capital expenditure is contained in Table 26, A9 (Asset Management) on page 36. In addition to the Table A9, KZN263 Tables SA34a, b, c and d provides a detailed breakdown of the capital programme relating to new asset construction; capital asset renewal as well as operational repairs and maintenance by asset class (refer to pages 88, 89 and 90). Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Cemetery development;
- Parks, recreational facilities and swimming pools;
- Firefighting and security equipment;
- Electricity for all (backlog eradication) – from ESKOM and the Municipality;
- Refurbishment and renewal electrical network;
- New electricity infrastructure;
- Public lighting;
- Waste water treatment works;
- Upgrading and renewal of sewers;
- Bulk supply and backlog eradication of water;
- Refurbishment and renewal of water network;
- Backlog eradication of roads;
- Backlog eradication of storm water drainage;
- Rehabilitation of roads; and
- Extension of main entry roads.

Furthermore pages 92 to 96 contain a detail breakdown of the capital budget per project over the medium-term.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.

Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programme have been included in Table 61 A5. It needs to be noted that as part of the 2019/20 MTREF, this expenditure has been factored into the two outer years of the operational budget.

Annual Budget Tables

The following eighteen pages present the ten main budget tables as required in terms of Section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2019/20 budget and MTREF as approved by the Council. Each table is accompanied by explanatory notes on the facing page

Explanatory notes to KZN263 Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasise the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a) The operating surplus/deficit (after Total Expenditure) is negative over the MTREF
 - b) Capital expenditure is balanced by capital funding sources, of which
 - I. Transfers recognised is reflected on the Financial Performance Budget;
 - II. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This place the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently, Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back can be achieved by 2020/21, even though the deficit shows higher the figures will be revisited before tabling the final document to ensure the deficit is reflected as being smaller or no deficit.

5. *Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The Section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs. It is anticipated that by 2021/22 the water backlog will have been very nearly eliminated.*

Explanatory notes to KZN263 Table A2 - Budgeted Financial Performance (Revenue and Expenditure by Standard Classification)

1. *Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.*
2. *Note the Total Revenue on this table includes capital revenues (Transfers recognised – Capital) and so does not balance to the operating revenue shown on Table A4.*
3. *Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Electricity, Water, Solid Waste and Waste water functions. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.*
4. *Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under Governance & Administration.*

Table 15 KZN263 Table SA3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)

KZN263 Abaqulusi - Supporting Table SA3 Supporting detail to 'Budgeted Financial Position'

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand											
ASSETS											
<u>Call investment deposits</u>											
Call deposits											
Other current investments											
Total Call investment deposits	2	-	-	-	-	-	-	-	-	-	-
<u>Consumer debtors</u>											
Consumer debtors											
Less: Provision for debt impairment											
Total Consumer debtors	2	-	-	-	-	-	-	-	-	-	-
<u>Debt impairment provision</u>											
Balance at the beginning of the year											
Contributions to the provision											
Bad debts written off											
Balance at end of year		-	-	-	-	-	-	-	-	-	-
<u>Property, plant and equipment (PPE)</u>											
PPE at cost/valuation (excl. finance leases)											
Leases recognised as PPE											
Less: Accumulated depreciation											
Total Property, plant and equipment (PPE)	2	-	-	-	-	-	-	-	-	-	-
LIABILITIES											
<u>Current liabilities - Borrowing</u>											
Short term loans (other than bank overdraft)											
Current portion of long-term liabilities											
Total Current liabilities - Borrowing		-	-	-	-	-	-	-	-	-	-
<u>Trade and other payables</u>											
Trade Payables	5										
Other creditors											

Unspent conditional transfers											
VAT											
Total Trade and other payables	2	-	-	-	-	-	-	-	-	-	-
Non current liabilities - Borrowing											
Borrowing	4										
Finance leases (including PPP asset element)											
Total Non current liabilities - Borrowing		-	-	-	-	-	-	-	-	-	-
Provisions - non-current											
Retirement benefits											
List other major provision items											
Refuse landfill site rehabilitation											
Other											
Total Provisions - non-current		-	-	-	-	-	-	-	-	-	-
CHANGES IN NET ASSETS											
Accumulated Surplus/(Deficit)											
Accumulated Surplus/(Deficit) - opening balance											
GRAP adjustments											
Restated balance		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit)		-	-	-	-	-	-	-	-	-	-
Appropriations to Reserves											
Transfers from Reserves											
Depreciation offsets											
Other adjustments											
Accumulated Surplus/(Deficit)	1	-	-	-	-	-	-	-	-	-	-
Reserves	-										
Housing Development Fund											
Capital replacement											
Self-insurance											
Other reserves											
Revaluation											
Total Reserves	2	-	-	-	-	-	-	-	-	-	-
TOTAL COMMUNITY WEALTH/EQUITY	2	-	-	-	-	-	-	-	-	-	-

Total capital expenditure includes expenditure on nationally significant priorities:

Provision of basic services											

Explanatory notes to KZN263 Table A3 - Budgeted Financial Performance (Revenue and Expenditure by municipal vote)

1. *Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity and water trading services.*
2. *The electricity trading is not showing signs of improvement over the 2019/20 MTREF from a deficit in the adjustment budget for 2018/19 of approximately R 10 million to a deficit of R 47 million in 2019/20 and increases in the outer two years. This is primarily as a result of the high increases in ESKOM bulk purchases and the tariff setting policy of the municipality to buffer the impact of these increases on individual consumers as well as additional requirements from the Section to upgrade the ageing infrastructure which is a non-cash item of depreciation.*
3. *The deficit on the water account remains relatively constant over the MTREF translating into a deficit of R 11 million for each of the respective outer financial years; and in the 2019/20 a deficit of R 11 million is forecast. This is mainly due to the severe drought experienced over the past year in the region and the upgrade of the ageing infrastructure.*
4. *Note that there are no longer surpluses on these trading accounts that can be utilised as an internal funding source for the capital programme for asset renewal, refurbishment and the development of new asset infrastructure, and are not used to cross-subsidise other municipal services.*

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. *Total revenue is R 546,6 million in 2019/20 and escalates to R610,3 million by 2021/22. This represents a year-on-year increase of 6% for the 2020/21 financial year and 6% for the 2021/22 financial year.*
2. *Revenue to be generated from property rates is R 78,7 million in the 2019/20 financial year and increases to R 89,3 million by 2021/22 which represents 15,35% of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 6% for each of the respective financial years of the MTREF.*
3. *Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R229,8 million for the 2019/20 financial year and increasing to R 260,6 million by 2021/22. A notable trend is the growth in the total percentage revenue generated from services charges which remains constant at 6% in 2020/21 and 2021/22.*
4. *Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF by 6% for the two outer years. The percentage share of this revenue source increases due to the new formula that was implemented for the Equitable Share allocation.*
5. *Bulk purchases have significantly increased over the 2019/20 to 2021/22 period escalating from R172 million to R 195,6 million. These increases can be attributed to the substantial increase in the cost of bulk electricity from ESKOM.*
6. *Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.*

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2019/20 R 37,1 million has been allocated for the capital budgets, which total 100%. This allocation increases to R 39 million in 2020/21 and then increases to R41,8 million in 2021/22
3. Single-year capital expenditure has not been appropriated for the 2019/20 financial year and also over the MTREF remains zero respectively for the two outer years.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the Municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations and internally generated funds from current year surpluses. For 2019/20, capital transfers totals R 37,1 million and increases to R41,8 million by 2021/22. These funding sources are further discussed in detail in 2.6 (Overview of Budget Funding)**Explanatory notes to Table A6 - Budgeted Financial Position**

1. Table A6 is consistent with international standards of good financial management practice and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3 which can be found on page 41) providing a detailed analysis of the major components of a number of items, including:
 - *Call investments deposits;*
 - *Consumer debtors;*

- *Property, plant and equipment;*
 - *Trade and other payables;*
 - *Provisions non-current;*
 - *Changes in net assets; and*
 - *Reserves*
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 16 KZN263 Table A9 - Asset Management

Province: Municipality A - Table A9 Asset Management

Description	Ref	2019/20 Financial period	2020/21 Financial period	2021/22 Financial period
R thousands	N	Munsoft Budget Data 2019/20	Munsoft Budget Data 2020/21	Munsoft Budget Data 2021/22
CAPITAL EXPENDITURE				
<u>Total New Assets</u>	1	18 569	-	-
Roads Infrastructure		13 569	-	-
Storm water Infrastructure		-	-	-
Electrical Infrastructure		-	-	-
Water Supply Infrastructure		-	-	-
Sanitation Infrastructure		-	-	-
Solid Waste Infrastructure		-	-	-
Rail Infrastructure		-	-	-
Coastal Infrastructure		-	-	-
Information and Communication Infrastructure		-	-	-
Infrastructure		13 569	-	-
Community Facilities		5 000	-	-
Sport and Recreation Facilities		-	-	-
Community Assets		5 000	-	-
Heritage Assets		-	-	-
Revenue Generating		-	-	-
Non-revenue Generating		-	-	-
Investment properties		-	-	-
Operational Buildings		-	-	-
Housing		-	-	-
Other Assets		-	-	-
Biological or Cultivated Assets		-	-	-
Servitudes		-	-	-
Licences and Rights		-	-	-

Intangible Assets		-	-	-
Computer Equipment		-	-	-
Furniture and Office Equipment		-	-	-
Machinery and Equipment		-	-	-
Transport Assets		-	-	-
Libraries				
Zoo's, Marine and Non-biological Animals		-	-	-
Total Renewal of Existing Assets	2	7 429	-	-
Roads Infrastructure		-	-	-
Storm water Infrastructure		-	-	-
Electrical Infrastructure		-	-	-
Water Supply Infrastructure		-	-	-
Sanitation Infrastructure		-	-	-
Solid Waste Infrastructure		-	-	-
Rail Infrastructure		-	-	-
Coastal Infrastructure		-	-	-
Information and Communication Infrastructure		-	-	-
Infrastructure		-	-	-
Community Facilities		7 429	-	-
Sport and Recreation Facilities		-	-	-
Community Assets		7 429	-	-
Heritage Assets		-	-	-
Revenue Generating		-	-	-
Non-revenue Generating		-	-	-
Investment properties		-	-	-
Operational Buildings		-	-	-
Housing		-	-	-
Other Assets		-	-	-
Biological or Cultivated Assets		-	-	-
Servitudes		-	-	-
Licences and Rights		-	-	-
Intangible Assets		-	-	-
Computer Equipment		-	-	-
Furniture and Office Equipment		-	-	-
Machinery and Equipment		-	-	-

Transport Assets		-	-	-
Libraries				
Zoo's, Marine and Non-biological Animals		-	-	-
Total Upgrading of Existing Assets	6	9 281	-	-
Roads Infrastructure		9 281	-	-
Storm water Infrastructure		-	-	-
Electrical Infrastructure		-	-	-
Water Supply Infrastructure		-	-	-
Sanitation Infrastructure		-	-	-
Solid Waste Infrastructure		-	-	-
Rail Infrastructure		-	-	-
Coastal Infrastructure		-	-	-
Information and Communication Infrastructure		-	-	-
Infrastructure		9 281	-	-
Community Facilities		-	-	-
Sport and Recreation Facilities		-	-	-
Community Assets		-	-	-
Heritage Assets		-	-	-
Revenue Generating		-	-	-
Non-revenue Generating		-	-	-
Investment properties		-	-	-
Operational Buildings		-	-	-
Housing		-	-	-
Other Assets		-	-	-
Biological or Cultivated Assets		-	-	-
Servitudes		-	-	-
Licences and Rights		-	-	-
Intangible Assets		-	-	-
Computer Equipment		-	-	-
Furniture and Office Equipment		-	-	-
Machinery and Equipment		-	-	-
Transport Assets		-	-	-
Libraries				
Zoo's, Marine and Non-biological Animals		-	-	-

Total Capital Expenditure	4	35 279	-	-
Roads Infrastructure		22 850	-	-
Storm water Infrastructure		-	-	-
Electrical Infrastructure		-	-	-
Water Supply Infrastructure		-	-	-
Sanitation Infrastructure		-	-	-
Solid Waste Infrastructure		-	-	-
Rail Infrastructure		-	-	-
Coastal Infrastructure		-	-	-
Information and Communication Infrastructure		-	-	-
Infrastructure		22 850	-	-
Community Facilities		12 429	-	-
Sport and Recreation Facilities		-	-	-
Community Assets		12 429	-	-
Heritage Assets		-	-	-
Revenue Generating		-	-	-
Non-revenue Generating		-	-	-
Investment properties		-	-	-
Operational Buildings		-	-	-
Housing		-	-	-
Other Assets		-	-	-
Biological or Cultivated Assets		-	-	-
Servitudes		-	-	-
Licences and Rights		-	-	-
Intangible Assets		-	-	-
Computer Equipment		-	-	-
Furniture and Office Equipment		-	-	-
Machinery and Equipment		-	-	-
Transport Assets		-	-	-
Libraries		-	-	-
Zoo's, Marine and Non-biological Animals		-	-	-
TOTAL CAPITAL EXPENDITURE - Asset Class		35 279	-	-
ASSET REGISTER SUMMARY - PPE (WDV)	5			

Roads Infrastructure				
Storm water Infrastructure				
Electrical Infrastructure				
Water Supply Infrastructure				
Sanitation Infrastructure				
Solid Waste Infrastructure				
Rail Infrastructure				
Coastal Infrastructure				
Information and Communication Infrastructure				
Infrastructure				
Community Facilities				
Sport and Recreation Facilities				
Community Assets				
Heritage Assets				
Revenue Generating				
Non-revenue Generating				
Investment properties				
Operational Buildings				
Housing				
Other Assets				
Biological or Cultivated Assets				
Servitudes				
Licences and Rights				
Intangible Assets				
Computer Equipment				
Furniture and Office Equipment				
Machinery and Equipment				
Transport Assets				
Libraries				
Zoo's, Marine and Non-biological Animals				
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)				
EXPENDITURE OTHER ITEMS				
<u>Depreciation</u>	7	-	-	-
<u>Repairs and Maintenance by Asset Class</u>	3	11 905	12 738	13 503
Roads Infrastructure		550	589	624

Storm water Infrastructure	-	-	-
Electrical Infrastructure	2 260	2 418	2 563
Water Supply Infrastructure	4 200	4 494	4 764
Sanitation Infrastructure	1 250	1 338	1 418
Solid Waste Infrastructure	-	-	-
Rail Infrastructure	-	-	-
Coastal Infrastructure	-	-	-
Information and Communication Infrastructure	-	-	-
Infrastructure	8 260	8 838	9 368
Community Facilities	565	605	641
Sport and Recreation Facilities	-	-	-
Community Assets	565	605	641
Heritage Assets	-	-	-
Revenue Generating	180	193	204
Non-revenue Generating	-	-	-
Investment properties	180	193	204
Operational Buildings	1 700	1 819	1 928
Housing	-	-	-
Other Assets	1 700	1 819	1 928
Biological or Cultivated Assets	-	-	-
Servitudes	-	-	-
Licences and Rights	-	-	-
Intangible Assets	-	-	-
Computer Equipment	-	-	-
Furniture and Office Equipment	-	-	-
Machinery and Equipment	100	107	113
Transport Assets	1 100	1 177	1 248
Libraries			
Zoo's, Marine and Non-biological Animals	-	-	-
TOTAL EXPENDITURE OTHER ITEMS	11 905	12 738	13 503
<i>Renewal and upgrading of Existing Assets as % of total capex</i>			
<i>Renewal and upgrading of Existing Assets as % of deprecn</i>			
<i>R&M as a % of PPE</i>			
<i>Renewal and upgrading and R&M as a % of PPE</i>			

Explanatory notes to Table A9 - Asset Management

- 1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.*
- 2. National Treasury has recommended that municipalities should allocate at least 40 % of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8% of PPE. The Municipality is not able to meet both these recommendations.*
- 3. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF. It highlights the Municipality's strategy to address the maintenance backlog.*

Table 17 KZN263 Table A10 - Basic Service Delivery Measurement

KZN263 Abaqulusi - Table A10 Basic service delivery measurement

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Household service targets	1									
<u>Water:</u>										
Piped water inside dwelling		17 237	34 261	67	67	67	67	67	67	67
Piped water inside yard (but not in dwelling)		14 020	–	65	65	65	65	65	65	65
Using public tap (at least min. service level)	2	14	14	14	14	14	14	14	14	14
Other water supply (at least min. service level)	4	12	12	7	7	7	7	7	7	7
<i>Minimum Service Level and Above sub-total</i>		31 283	34 287	153	153	153	153	153	153	153
Using public tap (< min. service level)	3	3 207	3 207	3 207	3 207	3 207	3 207	3 207	3 207	3 207
Other water supply (< min. service level)	4	1 919	1 919	1 919	1 919	1 919	1 919	1 919	1 919	1 919
No water supply		40 232	40 232	40 232	40 232	40 232	40 232	40 232	40 232	40 232
<i>Below Minimum Service Level sub-total</i>		45 358	45 358	45 358	45 358	45 358	45 358	45 358	45 358	45 358
Total number of households	5	76 641	79 645	45 511	45 511	45 511	45 511	45 511	45 511	45 511
<u>Sanitation/sewerage:</u>										
Flush toilet (connected to sewerage)		68 157	68 157	68 157	68 157	68 157	68 157	68 157	68 157	68 157
Flush toilet (with septic tank)		4 506	4 506	4 506	4 506	4 506	4 506	4 506	4 506	4 506
Chemical toilet		11 208	11 208	11 208	11 208	11 208	11 208	11 208	11 208	11 208
Pit toilet (ventilated)		22 379	22 379	22 379	22 379	22 379	22 379	22 379	22 379	22 379
Other toilet provisions (> min. service level)		–	–	–	–	–	–	–	–	–
<i>Minimum Service Level and Above sub-total</i>		106 250	106 250	106 250	106 250	106 250	106 250	106 250	106 250	106 250
Bucket toilet		919	919	919	919	919	919	919	919	919
Other toilet provisions (< min. service level)		53 876	53 876	53 876	53 876	53 876	53 876	53 876	53 876	53 876
No toilet provisions		28 842	28 842	28 842	28 842	28 842	28 842	28 842	28 842	28 842
<i>Below Minimum Service Level sub-total</i>		83 637	83 637	83 637	83 637	83 637	83 637	83 637	83 637	83 637
Total number of households	5	189 887	189 887	189 887	189 887	189 887	189 887	189 887	189 887	189 887
<u>Energy:</u>										
Electricity (at least min. service level)		19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781
Electricity - prepaid (min. service level)		–	–	–	–	–	–	–	–	–
<i>Minimum Service Level and Above sub-total</i>		19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781
Electricity (< min. service level)		–	–	–	–	–	–	–	–	–
Electricity - prepaid (< min. service level)		–	–	–	–	–	–	–	–	–
Other energy sources		3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243
<i>Below Minimum Service Level sub-total</i>		3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243

Total number of households	5	23 024	23 024	23 024	23 024	23 024	23 024	23 024	23 024	23 024
<u>Refuse:</u>										
Removed at least once a week		11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257
<i>Minimum Service Level and Above sub-total</i>		11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257
Removed less frequently than once a week		1 270	1 270	1 270	1 270	1 270	1 270	1 270	1 270	1 270
Using communal refuse dump		1 763	1 763	1 763	1 763	1 763	1 763	1 763	1 763	1 763
Using own refuse dump		105 738	105 738	105 738	105 738	105 738	105 738	105 738	105 738	105 738
Other rubbish disposal		3 816	3 816	3 816	3 816	3 816	3 816	3 816	3 816	3 816
No rubbish disposal		15 010	15 010	15 010	15 010	15 010	15 010	15 010	15 010	15 010
<i>Below Minimum Service Level sub-total</i>		127 597	127 597	127 597	127 597	127 597	127 597	127 597	127 597	127 597
Total number of households	5	138 854	138 854	138 854	138 854	138 854	138 854	138 854	138 854	138 854
<u>Households receiving Free Basic Service</u>	7									
Water (6 kilolitres per household per month)		–	–	–	–	–	–	–	–	–
Sanitation (free minimum level service)		–	–	–	–	–	–	–	–	–
Electricity/other energy (50kwh per household per month)		–	–	–	–	–	–	–	–	–
Refuse (removed at least once a week)		–	–	–	–	–	–	–	–	–
<u>Cost of Free Basic Services provided - Formal Settlements (R'000)</u>	8									
Water (6 kilolitres per indigent household per month)		2 580	2 800	–	2 060	–	–	2 163	2 282	2 408
Sanitation (free sanitation service to indigent households)		4 700	4 500	–	5 756	–	–	6 044	6 376	6 727
Electricity/other energy (50kwh per indigent household per month)		2 000	2 000	–	3 398	–	–	3 568	3 765	3 972
Refuse (removed once a week for indigent households)		3 500	3 500	–	4 960	–	–	5 208	5 494	5 796
<u>Cost of Free Basic Services provided - Informal Formal Settlements (R'000)</u>		–	–	–	–	–	–	–	–	–
Total cost of FBS provided		12 780	12 800	–	16 174	–	–	16 983	17 917	18 902
<u>Highest level of free service provided per household</u>										
Property rates (R value threshold)		15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
Water (kilolitres per household per month)		6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)										
Sanitation (Rand per household per month)										
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)										
<u>Revenue cost of subsidised services provided (R'000)</u>	9									
Property rates (tariff adjustment) (impermissible values per section 17 of MPRA)		15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
Property rates exemptions, reductions and rebates and impermissible values in excess of section 17 of MPRA		–	–	–	–	–	–	–	–	–
Water (in excess of 6 kilolitres per indigent household per month)		–	–	–	–	–	–	–	–	–
Sanitation (in excess of free sanitation service to indigent households)		–	–	–	–	–	–	–	–	–
Electricity/other energy (in excess of 50 kwh per indigent household per month)		–	–	–	–	–	–	–	–	–
Refuse (in excess of one removal a week for indigent households)		–	–	–	–	–	–	–	–	–

Municipal Housing - rental rebates	6									
Housing - top structure subsidies										
Other										
Total revenue cost of subsidised services provided		15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. *Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.*
2. *The Municipality continues to make good progress with the eradication of backlogs:*
 - a. *Water services – backlog will remain the same in 2019/20 as in 2018/19. These households are largely found in ‘rural areas’ and will need to be moved to formal areas so that they can receive services.*
 - b. *Sanitation services – backlog will remain the same over the MTREF*
 - c. *Electricity services – backlogs will be reduced in ESKOM supplied areas*
 - d. *Refuse services – backlog will be reduced in 2019/20, and in the outer two years of the MTREF. However, it should be noted that this function is being investigated with a view to realising greater efficiencies, which is likely to translate into a more rapid process to address backlogs.*
3. *The budget provides for all households applying as indigent in 2019/20 to be registered and on approval from EXCO be entitled to receive Free Basic Services. The number is set to increase given the rapid rate of in-migration to the Municipality, especially by poor people seeking economic opportunities.*
4. *It is anticipated that these Free Basic Services will cost the municipality R 16,9 million in 2019/20, increasing to R 18,9 million in 2021/22. This is covered by the municipality’s equitable share allocation from national government.*
5. *In addition to the Free Basic Services, the Municipality also ‘gives’ households R 18, 1 million in free services in 2019/20. This “tax expenditure” needs to be seen within the context of the municipality’s overall revenue management strategy – the more the municipality gives away, the less there is available to fund other services. Currently, the “free services” represent about 3, 15% of total operating revenue.*

Part 2 – Supporting Documentation**Overview of the Annual Budget Process**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the Act.

The Budget Steering Committee consists of EXCO and MANCOM of the municipality meeting under the chairpersonship of the Finance Portfolio.

The primary aim of the Budget Steering Committee is to ensure:

- *that the process followed to compile the budget complies with legislation and good budget practices;*
- *that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;*
- *that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and*
- *that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.*

The above process was followed during the preparation of the budget.

Budget Process Overview

In terms of Section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2018) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 31 August 2018. Key dates applicable to the process were:

- **August 2018:**
- *Table IDP Process Plan to EXCO and Council for approval*
- *Submit Annual Performance Report to Treasury*

February 2019

- **Strategic Planning Session**
- **28 March 2019 Draft Budget**
- Submit Draft budget, tariffs, SDBIP's to EXCO for recommendation to Council Submit Draft IDP to EXCO for recommendation to Council
- **1 April – 17 April 2019** – Public consultation;
- **25 April – 5 May 2019** – Balancing of budget
- **28 April 2019** - Closing date for written comments;
- **25 May 2019** - Tabling of the 2019/20 MTREF before Council for consideration and approval.

IDP and Service Delivery and Budget Implementation Plan

On the 1st of July 2017 the Abaqulusi Municipality implemented a new five-year IDP for the period July 2017 to June 2022 to inform and guide the current elected public representatives in their term of office. This document which is for the 3rd year of the five-year period outlines the Municipality's intent in terms of the agreed six strategic focus areas that are required to overcome Abaqulusi challenges, achieve its vision, and give effect to its other strategic considerations

It started in October 2018 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2019/20 MTREF in August.

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

Registration of community needs;

- *Compilation of departmental business plans including key performance indicators and targets;*
- *Financial planning and budgeting process;*
- *Public participation process;*
- *Compilation of the SDBIP, and*
- *The review of the performance management and monitoring processes.*

The IDP has been taken into a business and financial planning process leading up to the 2019/20 MTREF, based on the approved 2018/19 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2019/20 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2018/19 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Financial Modelling and Key Planning Drivers

Full compliance was done by the municipality during the compilation of the 2019/20 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- *Municipality growth*
- *Policy priorities and strategic objectives*
- *Asset maintenance*
- *Economic climate and trends (i.e. inflation, ESKOM increases, household debt, migration patterns)*
- *Performance trends*
- *The approved 2018/19 adjustments budget and performance against the SDBIP*
- *Cash Flow Management Strategy*
- *Debtor payment levels*
- *Loan and investment possibilities*
- *The need for tariff increases versus the ability of the community to pay for services;*
- *Improved and sustainable service delivery*

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 93 has been taken into consideration in the planning and prioritisation process.

Community Consultation

The draft 2019/20 MTREF will be tabled before Council on the 28th of March 2019 for community consultation and will be published on the municipality's website, and hard copies made available at customer care offices, municipal notice boards and various libraries. The final will be tabled before Council on the 25th of May 2019.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with Section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees will be utilised to facilitate the community consultation process and include public briefing sessions. The applicable date and venue will be published in all the local newspapers and an average attendance of 3,000 members of the community will be catered for. Other stakeholders involved in the consultation include churches, non-governmental institutions, community-based organisations and taxi associations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant considered as part of the finalisation of the 2019/20 MTREF. Feedback and responses to the submissions received will be available on request. The following are some of the issues and concerns raised as well as comments received during last year's consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The Municipality is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;*
- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;*
- Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;*
- Issues were raised regarding the payment of bonuses to senior managers;*
- Remuneration packages of council officials were criticized as being very high, relative their private sector counterparts within the Municipality;*
- The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;*
- Pensioners cannot afford the tariff increases due to low annual pension increases; and*
- During the community consultation process large Sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.*

The changes affecting the final 2019/20 MTREF will be compared to the draft 2019/20 MTREF that will be tabled for community consultation will be included.

Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this cycle is to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2019/20 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 18 IDP Strategic Objectives

Key Performance Area: Basic Service Delivery and Infrastructure Development			
Goal: To reduce levels of infrastructure backlogs by providing Basic Services, Facilities and maintaining existing infrastructure.			
Key Focus Area	IDP Ref. No.	Development Objectives	Development Strategies
1. Roads	1	Expand accessibility in various wards by 2022.	<ul style="list-style-type: none"> Constructing New Gravel Roads Constructing new tarred and paved roads Constructing new cause ways Spatially capture roads infrastructure
	2	Maintain existing Roads in rural & urban areas by 2022.	<ul style="list-style-type: none"> Upgrading of gravel roads to tar Re-gravelling of roads Resealing of Roads Rehabilitation of existing tar roads Blading of roads Spatially capture road infrastructure
2. Storm Water	3	Building and maintaining Storm Water Infrastructure by 2022.	<ul style="list-style-type: none"> Construction of new storm water drains Cleaning of storm water drains Spatially capture storm water infrastructure
3. Sanitation	4	Expand Sanitation accessibility in various wards by 2022.	<ul style="list-style-type: none"> Establishment of new sewer lines Provision of VIP in rural areas Constructing Public Ablutions Spatially capture sanitation infrastructure
	5	Maintain and replace existing Sanitation Infrastructure by 2022.	<ul style="list-style-type: none"> Replace old sanitation pipes Upgrading of sewer main lines Upgrade of the WWTW
4. Water	6	Expand water accessibility in various wards by 2022.	<ul style="list-style-type: none"> Installation of new water connections Upgrade of water main lines Spatially capture water infrastructure
	7	Maintain and replace existing Water Infrastructure by 2022.	<ul style="list-style-type: none"> Replace old water Pipes Repairs to water lines Repairs to existing water pumps Maintain purification treatment plants

5. Electricity	8	Expand electrical accessibility in various wards by 2022.	<ul style="list-style-type: none"> • Installation of New electrical connections
	9	Expand and Maintain existing network electricity in urban and rural areas by 2022. Provide alternative energy	<ul style="list-style-type: none"> • Installation of Electrical Meters • Installation and repairs of High Mast Lights • General Infrastructure- maintenance on mini and major substations • Upgrade existing transformers • Repairs to Robots • Provision of solar geysers and street lights • Provision of solar panels in urban and rural areas • Spatially capture electricity infrastructure • Master sector plans to be in place
6. Sport fields & Parks	10	Expand accessibility and maintenance of Sports fields and Parks in various wards by 2022.	<ul style="list-style-type: none"> • Construction and maintenance of new Sports fields and Parks in various wards • Upgrade and revamp existing Sports fields and Parks
7. Community Halls	11	Expand accessibility and maintenance of Community Halls in various wards by 2022.	<ul style="list-style-type: none"> • Construction and maintenance of New Community Halls • Upgrade and revamp existing Community Halls
8. Cemeteries	12	Expand accessibility and maintenance of Community Cemeteries in various wards by 2022.	<ul style="list-style-type: none"> • Construction and maintenance of Cemeteries • Upgrade and revamp existing Cemeteries • Fencing of all unused cemeteries • Identify and establish new cemeteries
9. Community Services Centres	13	Expand accessibility and maintenance of Community Services Centres in various wards by 2022.	<ul style="list-style-type: none"> • Upgrade and revamp existing Community Services Centres • Construction of New CSCs
10. Libraries	14	Expand accessibility and maintenance of Libraries in various wards by 2022.	<ul style="list-style-type: none"> • Construction of new Libraries • Upgrade and Maintain existing Libraries
11. Refuse Removal	15	Expand accessibility of Refuse Services in various wards by 2022.	<ul style="list-style-type: none"> • Identify new areas and settlements to offer Refuse Services • Integrated waste management plan
12. Human Settlements	16	To provide sustainable human settlements to the people of Abaqulusi by 2022	<ul style="list-style-type: none"> • Identify and Secure land prior to project approval • Ensure appointment of experienced and qualified implementing agents • Land disposal policy for public use

		<ul style="list-style-type: none"> • Strengthen Intergovernmental Relations • Land identification and release • facilitation of bulk service provision • Facilitate Land Release • Approval and implementation of the Housing Sector Plan • Set up housing consumer education programme • Linking of the HSP to SDF, IDP and Comprehensive CIF • Middle income housing development
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ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure integrated and sustainable provision of infrastructure that will lead to better living conditions for all our people.

National Development Plan identified the following primary challenges pertaining to this

KPA:

- Infrastructure is poorly located, inadequate, and under- maintained;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and

Cabinet Outcomes:

6. An efficient, competitive and responsive economic infrastructure network
7. Vibrant, equitable and sustainable rural communities with food security for all
8. Sustainable human settlements and improved quality of households' life

KZN Provincial Growth and Development Plan/Strategy

3. Human and Community Development
4. Strategic Infrastructure

Back to Basics Program:

1. Basic Services: Creating decent living conditions

Zululand District Growth and Development Plan

4. Strategic Infrastructure

Batho Pele Principles:

2. Service Standards
3. Access
7. Redress
1. Value for money

AbaQulusi municipality

The goal, focus areas, Action plans and eventual projects of the municipality is all directly aligned with the broader governmental strategic documents to ensure the strategic use of scarce resources to provide new and maintain existing services in the municipality. The compilation of a maintenance Plan as well as an infrastructure delivery plan will ensure transparency and the curbing of unrealistic expectations while striving towards reaching the Municipality's vision and giving effect to the national and provincial strategies.

The implementation of the Strategies for the 11 identified Focus Areas will ensure that the community of Abaqulusi Municipality enjoys an improved quality of life with the concomitant opportunities and that our places where we live, work and play are situated in an environment conducive to an ever-increasing quality of live.

Key Performance Area: Municipal Transformation and Institutional Development			
Goal: Empower and capacitate institutional structures and promotion of transparent cooperative governance.			
Key Focus Area	IDP Ref. No.	Development Objective	Development Strategies
1. Human Resources Management	17	To ensure that the municipality practice sound Human Resources management by 2022.	<ul style="list-style-type: none"> • Conduct Workshops on labour relations • Ensure functionality of Local Labour Forum • Formulate, review and adopt new and existing HR Policies. • Review and adopt Employment Equity plan • Review and adopt recruitment Plan and strategy • Review and adopt Retention strategy • Review and adopt organizational structure • Review Job descriptions • Fast track filling of critical vacant posts
2. Human Resource Development	18	To ensure that the new and existing staff are capacitated to fulfil their functions and promote career development and comply with safety measures by June 2022.	<ul style="list-style-type: none"> • Develop/Review Workplace Skills Plan. • Develop/Review Induction Plan. • Ensure functionality of OHS Committee and other HRD related committees. • Develop/Review training policy • Develop/Review Wellness Programme.

Key Focus Area	IDP Ref. No.	Development Objective	Development Strategies
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1. Human Resources Management	17	To ensure that the municipality practice sound Human Resources management by 2022.	<ul style="list-style-type: none"> • Conduct Workshops on labour relations • Ensure functionality of Local Labour Forum • Formulate, review and adopt new and existing HR Policies. • Review and adopt Employment Equity plan • Review and adopt recruitment Plan and strategy • Review and adopt Retention strategy • Review and adopt organizational structure • Review Job descriptions • Fast track filling of critical vacant posts
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2. Human Resource Development	18	To ensure that the new and existing staff are capacitated to fulfil their functions and promote career development and comply with safety measures by June 2022.	<ul style="list-style-type: none"> • Develop/Review Workplace Skills Plan. • Develop/Review Induction Plan. • Ensure functionality of OHS Committee and other HRD related committees. • Develop/Review training policy • Develop/Review Wellness Programme.
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			<ul style="list-style-type: none"> Facilitate skills audit for municipal employees. Facilitate skills audit for councillors Facilitate Female councillors' empowerment Continued professional development (CPD) for all professionals serving in the municipality MFMP training for Staff and Councillors
3. Council Support	19	To ensure that Council and its committee fulfil their executive and legislative functions and play an effective oversight role over administration by 2022	<ul style="list-style-type: none"> Develop and adopt Council Annual Programme Monitoring and implementation of the Council Annual Programme Monitoring the execution of Council resolutions Provision of Administrative Support to Council and its Committees
4. Records Management	20	To ensure effective management of all internal and external records by 2022	<ul style="list-style-type: none"> Implementation of Records Management Policy
5. Fleet Management	21	To ensure effective management of fleet by 2022	<ul style="list-style-type: none"> Implementation of Fleet Management Policy
6. Information Technology	22	To provide a secure ICT infrastructure which delivers appropriate levels of Confidentiality, integrity, availability, stability and growth by 2022.	<ul style="list-style-type: none"> Development and monitoring of ICT infrastructure and relevant security mechanisms with provision of reports. Workshop of ICT Policies and Procedures to staff. Development of Intranet to provide basic information on Email and Internet security standards for users. Ensure ICT secure procedures are followed. Ensure security mechanisms are in place to ensure confidentiality and integrity of data. Upgrade, and maintain relevant equipment and infrastructure to ensure stability of ICT infrastructure Providing ICT Tools of trade. Upgrading to new technologies.

		<ul style="list-style-type: none"> Updating/Upgrading to new software as part of the new technology drive forward. Renewal and expansion of DR and Data Backup Systems Develop compliance/Intranet calendar for staff on the Intranet as reference model to assist in providing staff with deadline dates for ALL reports. Develop backup and replicate information for future reference Procure CAD software for engineering drawings
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ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure that the internal institution is structured and operating in a way that ensure optimal service provision.

National Development Plan identified the following primary challenges pertaining to this

KPA:

- *Public services are uneven and often of poor quality;*
- *Corruption levels are high; and*
- *South Africa remains a divided society.*

Cabinet Outcomes:

5. *A skilled and capable workforce to support an inclusive growth path*
9. *A responsive, accountable, effective and efficient local government system and inclusive citizenship*
6. *An efficient, effective and development orientated public service and an empowered, fair*

KZN Provincial Growth and Development Plan/Strategy

2. *Human Resource Development*

Back to Basics Program:

2. *Good Governance*
3. *Public Participation*
5. *Institutional Capacity*

Zululand District Growth and Development Plan

2. *Human Resource Development*
3. *Human and Community Development*

6. Governance and Policy

Batho Pele Principles:

- 1: Consultation
- 2: Service Standards
- 3: Access
- 4: Courtesy
- 5: Information
- 8: Value for money
- 6: Openness and transparency

AbaQulusi municipality

The goal, focus areas, development strategies and eventual projects of the municipality are all directly aligned with the broader governmental strategic documents to ensure that the internal structure of the Municipality is established in such a way that the organization has the capacity to warrant optimised service delivery to the people in its area.

The focus of this KPA is to be a service provider to the organisation itself. The mandate of this KPA provides the responsible officials with the task to ensure effective, efficient, capable and qualified human and administrative resources that will see to it that the institution can effectively do its service delivery. The contribution of this KPA can make or break the organisation it therefore needs to be strong, capable and virtuous.

Key Performance Area: Financial Viability & Management

Goal: Ensure sound financial management and accountability

Key Focus Area	IDP Ref. No.	Development Objective	Development Strategies
1. Revenue	23	Ensure the Municipal Revenue Streams are optimised	<ul style="list-style-type: none"> • Conducting Daily control check and balances of cashiers and banking of cash • Conducting Monthly updating of valuation roll and financial system to secure correct billing of rates • Monitor Billing vs Payment system • Update Indigent Register

			<ul style="list-style-type: none"> • Visiting satellite offices regularly to verify and secure financial procedures and income • Implement Revenue enhancement committee resolutions • Amendment to the credit control policy • Timeous and accurate reading of meters • Handing over of long outstanding/selling of debtors • Ensure reconciliations are performed daily, weekly and monthly respectively
2. Expenditure	24	To ensure effective expenditure control	<ul style="list-style-type: none"> • Ensure payment of service providers within 30 days • Ensure reconciliations are performed daily, weekly and monthly respectively • Verification of all orders and invoices correctness before payment is done using check list and financial system and procedures • Timeous payment of salaries and third parties • Timeous submission of VAT and PAYE to SARS • Verification of correct allocation of orders
3. SCM	25	To strengthen the Supply Chain Unit and Processes	<ul style="list-style-type: none"> • Develop Municipal Procurement Plan • Implement supplier's database in line with National Treasury's Central Suppliers Database • Review SCM Policy • Submission of Irregular expenditure report to COGTA on a monthly basis • Provide training and skills development to officials involved in procurement processes • Verification of Service Providers
4. Assets	26	To Maintain Fixed Assets of the Municipality	<ul style="list-style-type: none"> • Maintain fixed assets register on a monthly basis • Updating of all purchases and spot check visits to offices • Maintaining the Fixed Assets Register in terms of the Fixed Assets Policy and GRAP 17 monthly

			<ul style="list-style-type: none"> • Quarterly verification of inventory • Ensure reconciliations are performed daily, weekly and monthly respectively •
5. Financial Reporting	27	Ensure that financial reporting conforms to all legal and institutional requirements	<ul style="list-style-type: none"> • Develop Draft Budget annually • Develop and Adopt Final Budget annually • Develop and adopt Final Budget Process Plan annually • Submission of Monthly Section 71, Quarterly Section 52 & Half Year Section 72 Report • Develop Adjustment budget in line with section 72 reports • Annual adoption of policies and procedures • Ensure reconciliations are performed daily, weekly and monthly respectively

ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure that the institution provides services to its personnel, consumers and suppliers.

National Development Plan identified the following primary challenges pertaining to this

KPA:

- Public services are uneven and often of poor quality;
- Corruption levels are high; and

Cabinet Outcomes:

6. An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship
9. A responsive, accountable, effective and efficient local government system

KZN Provincial Growth and Development Plan/Strategy

6. Governance and Policy

Back to Basics Program:

2. Good Governance
4. Financial Management
5. Institutional Capacity

Zululand District Growth and Development Plan**6. Governance and Policy****Batho Pele Principles:**

- 1: Consultation
- 2: Service Standards
- 3: Access
- 4: Courtesy
- 5: Information
- 8: Value for money
- 6: Openness and transparency

AbaQulusi municipality

The goal, focus areas, development strategies and eventual projects of the municipality are all directly aligned with the broader governmental strategic documents to ensure that the financial affairs of the municipality confirms to legal requirements, strife towards an approved audit report and do all payment timeously.

The focus of this KPA is to be a service provider to the organisation itself as well as it's consumers and suppliers. The mandate of this KPA provides the responsible officials with the task to ensure the responsible, honest management of tax payers' money. This KPA is mainly targeted on legal compliance and need to be implemented with absolute accountability, skill and without any prejudice.

Key Performance Area: Good Governance and Community Participation

Goal: To be a Responsible, accountable, effective and efficient developmental Municipality

Key Focus Area	IDP Ref. No.	Development Objective	Development Strategies
1. Communication and customer satisfaction	28	To revive and strengthen Communications by 2022	<ul style="list-style-type: none"> Develop/adopt communication strategy Review the Communication Strategy
	29	To engage and improve customer satisfaction by 2022	<ul style="list-style-type: none"> Develop a customer care centre Appoint a customer care committee Conduct customer service satisfaction surveys on regular basis

			<ul style="list-style-type: none"> • Establish “suggestion boxes’ at all municipal offices • Utilisation of the municipal “hotline” system • Establish additional municipal satellite offices
2. Internal Audit	30	To provide an assurance on the effectiveness of governance, risk management and internal control by 2022	<ul style="list-style-type: none"> • Develop and implement the annual internal audit coverage plan • Develop and implement quality assurance programmes to assess the effectiveness of internal audit unit • Discuss and submit internal audit reports to Management, Audit Committee and MPAC • Appoint audit steering committee • Develop and implement the audit committee annual plan • Develop and implement the audit committee assessment tool
3. Audit Committee	31	To ensure the effectiveness of the Audit Committee by 2022	<ul style="list-style-type: none"> • Develop and implement the audit committee annual plan • Develop and implement the audit committee assessment tool • Submission of audit committee reports to Council on a quarterly basis • Evaluate and track the implementation of audit committee resolutions
4. Risk Management	32	To improve the effectiveness of risk management within the organisation by 2022	<ul style="list-style-type: none"> • Conduct the risk assessment and develop the risk register • Appoint risk management committee and assess the functionality thereof • Incorporate risk action plans into departmental SDBIP • Monitor the implementation of risks mitigation plans by Department • Identify and assess new emerging risks throughout the period

5. Integrated Development Planning	33	To ensure effective decision-making, budgeting and management of resources	<ul style="list-style-type: none"> Develop and implement the IDP/Budget process plan Engage in Community Consultation Process (IDP Rep Forums, Road-shows, Izimbizos) Develop, review and adopt IDP annually
6. Performance Management	34	To promote a system of transparency and accountability within the municipality	<ul style="list-style-type: none"> Review and adopt the PMS Framework Cascading of PMS to all levels
7. Back to Basics	35	To Create an all-inclusive participatory developmental municipality by 2022	<ul style="list-style-type: none"> Regular reporting on the status of the municipality to National and Provincial CoGTA
8. Batho Pele	36	To enhance service delivery through the improvement of public consultation and communications by 2022	<ul style="list-style-type: none"> Develop and adopt Batho Pele Policy, procedural Manuel, Service Delivery Charter and Service Delivery Improvement Plan Hosting of Batho Pele Campaigns

ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure that the governance of the institution is legal complaint, corruption free and accountable.

National Development Plan identified the following primary challenges pertaining to this KPA:

1. Public services are uneven and often of poor quality;
2. Corruption levels are high; and

Cabinet Outcomes:

1. An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship
2. A responsive, accountable, effective and efficient local government system

KZN Provincial Growth and Development Plan/Strategy

1. Governance and Policy

Back to Basics Program:

1. Good Governance
2. Financial Management
3. Institutional Capacity

Zululand District Growth and Development Plan**1. Governance and Policy****Batho Pele Principles:**

- 1: Consultation
- 2: Service Standards
- 3: Access
- 4: Courtesy
- 5: Information
- 8: Value for money
- 6: Openness and transparency

AbaQulusi municipality

The goal, focus areas, development strategies and eventual projects of the municipality are all directly aligned with the broader governmental strategic documents to ensure the municipality functions optimum with the ambit of its developmental mandate. The municipality must ensure the promoting of an active citizenry to strengthen development, democracy, and accountability and to be servants to the community.

Communities must actively partake in the local sphere of government through information sharing workshops, capacitation of ward structures and dissemination of important issues through various media platforms.

The mandate of this KPA as reflected in the Strategic plan is to make sure that the citizens are involved in governance and the organisation is accountable to them.

Key Performance Area: Local Economic Development and Social Development**Goal: To promote socio-economic growth and job opportunities.**

Key Focus Area	IDP Ref No	Development Objective	Development Strategies
1. Agriculture	37	Unleashing agricultural potential in Abaqulusi by 2022	<ul style="list-style-type: none"> Coordinate the establishment of agri-business forums, farmers associations Provide support to the agricultural production Coordinate agricultural activities Establish cooperatives in all areas

			<ul style="list-style-type: none"> • Assist in Developing Agri-processing Hub • Develop Agriculture Sector Plan
2. SMME's and Job Creation	38	Continuous assistance of entrepreneurship and job creation by 2022	<ul style="list-style-type: none"> • Train SMME's according to their needs to meet the standard • Coordinate intergovernmental programmes to create job opportunities
3. Poverty alleviation	39	Reduce poverty in all wards by 2022	<ul style="list-style-type: none"> • Train the vulnerable community on income generating project • Deliver poverty alleviation project in all wards to create business opportunities
4. Tourism	40	Promote and identify tourism opportunities by 2022	<ul style="list-style-type: none"> • Co-ordinate tourism events and awareness campaigns in the municipality • Organise workshops and Road shows • Establish tourism industry and project focusing on tourism • Develop Tourism Sector Plan and Promote heritage route • Introduce historically disadvantaged people into tourism • Assisting Accommodation Establishments with their Tourism Grading
5. Economic growth	41	Promote economic development by 2022	<ul style="list-style-type: none"> • Develop commercial centres In the Municipality • Review, adopt and implement the LED strategy • Community empowerment on small business start-ups • To assist with business retention for existing businesses and provide incentives for new businesses
6. Real estate and Business Management	42	Proper Acquisition and disposal of real estate according to municipality by-laws by 2022	<ul style="list-style-type: none"> • Develop and Implement Land disposal Policy • Develop real estate by-laws • To enhance real estate capacity • Effective management of outdoor advertising • Business Licence Compliance

7. Sport and Recreation	43	Promote Sports and Recreation in Abaqulusi by 2022	<ul style="list-style-type: none"> Establish Sport and recreation Committee (Sport Council) Conduct sport talent promotion and competitions Provide DSR with a platform to support federations and players in different sport codes
8. Youth programmes	44	Establish and promote youth development programmes by 2022	<ul style="list-style-type: none"> Establish Youth Committee (Youth Council) Conduct youth empowerment sessions Provide government departments and private sector with a platform to support the youth in their different developmental needs.
9. Arts and culture	45	Establish and promote cultural programmes by 2022	<ul style="list-style-type: none"> Establish Art & Culture Committee (art & Culture Council) Conduct artist' talent promotion and competitions Provide department of arts and culture with a platform to support artists in their different art codes.
10. Social welfare	46	Ensure availability of social services programmes to the community of Abaqulusi by 2022	<ul style="list-style-type: none"> Establish Social services stakeholder Committee Support DSD in out rolling social development programmes.
11. Health HIV/AIDS	47	Establish and promote healthy living and HIV/AIDS awareness programmes BY 2022	<ul style="list-style-type: none"> Establish health and HIV/AIDS Committee (AIDS Council) Conduct awareness programmes Provide department of health with a platform to support the community in their different health needs.
12. Special Programmes	48	Establish and promote community empowerment programmes for children, aged, disabled and vulnerable groups by 2022	<ul style="list-style-type: none"> Establish Special programmes Committee (Children, Gender, elderly and Disability Councils) Conduct empowerment sessions and awareness campaigns Support NGO'S by sourcing assistance from potential sponsors and funders
13. Safety and Security	49	Enhancing safety and security by 2022	<ul style="list-style-type: none"> Participate in the CPF and Neighbourhood watch meetings

		<ul style="list-style-type: none"> • Conduct crime-awareness programmes in communities • Review of Safety and Security Plan • Installation of CCTV Cameras
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ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure that the institution complies with its mandate to promote an enabling environment for the economy to grow and to ensure social upliftment by providing facilities and support.

National Development Plan identified the following primary challenges pertaining to this KPA:

- *Bringing about faster economic growth, higher investment, and greater labour absorption; Focussing on key capabilities of people and the state;*
- *Building a capable and developmental state; and*

Cabinet Outcomes:

4. *Decent employment through inclusive economic growth*
5. *A skilled and capable workforce to support an inclusive growth path*
6. *An efficient, competitive and responsive economic infrastructure network*
7. *Vibrant, equitable and sustainable rural communities with food security for all*
8. *Sustainable human settlements and improved quality of household's life*
10. *Environmental assets and natural resources that is well protected and continually enhanced*

KZN Provincial Growth and Development Plan/Strategy

1. *Job Creation*

Back to Basics Program:

1. *Creating decent living conditions*

Zululand District Growth and Development Plan

1. *Job Creation*

Batho Pele Principles:

- 1: *Consultation*
- 2: *Service Standards*
- 3: *Access*

4: Courtesy

5: Information

8: Value for money

6: Openness and transparency

AbaQulusi municipality

The goal, focus areas, development strategies and eventual projects of the municipality are all directly aligned with the broader governmental strategic documents to ensure the municipality provides an enabling environment for its citizens that will lead to economic opportunities and social upliftment. The municipality's action plans focus on equipping our community with the necessary skills and facilities to become actively involved in the socio-economic enhancement of individuals and groups.

Key Performance Area: Cross Cutting (Spatial, Environment and Disaster Management)

Goal: To redress the spatial imbalances and promote sustainable environmental planning.

Key Focus Area	IDP Ref. No.	Development Objective	Development Strategies
1. Town Planning	50	To ensure effective management of current and desirable land uses by 2022	<ul style="list-style-type: none"> Review and implementation of the Spatial Development Framework Implementation of SPLUMA and SPLUMA By-Law Implementation of Precinct Plans Preparation of the Abaqulusi wall-to-wall scheme and Land Audit in compliance with the Spatial Planning and land Use Management Act 2013 Co-ordination of the Municipal Planning Tribunal Facilitation of Township Establishment Identification of developmental land Conduct Information Workshops Set up enforcement procedures
2. GIS	51	To have an effective and efficient GIS System by 2022	<ul style="list-style-type: none"> Ensure GIS system is updated regularly Integrate GIS System with other municipal departments
3. Building Inspectorate	52	To ensure the sustainability of the built environment by 2022	<ul style="list-style-type: none"> Timeous Assessment of building plans

			<ul style="list-style-type: none"> • Workshop Built environment professionals • Training to current staff and peace officers • Deal effectively and efficiently with all contraventions
4. Fire & Disaster Management	53	Ensure Effective & Efficient response to community emergencies by 2022	<ul style="list-style-type: none"> • Strengthen stakeholder relations • Decentralisation of services by establishing disaster satellite offices • Establishment of Disaster Management Unit • Acquiring relevant and sufficient Disaster Equipment regularly
5. Environmental health	54	Establish and promote a healthy environment in Abaqulusi by 2022	<ul style="list-style-type: none"> • Establish Environmental issues committee (Enviro Council) • Conduct awareness programmes • Provide department of environmental affairs with a platform to support the municipality and the community in their different art environmental needs

ALIGNMENT WITH NATIONAL, PROVINCIAL AND DISTRICT STRATEGIC DOCUMENTS

This KPA is aligned with the following national, provincial and district strategies to ensure that the municipality works in a way that is sustainable and provide a safe environment for its citizens.

National Development Plan identified the following primary challenges pertaining to this

KPA:

- *Spatial divides hobble inclusive development;*
- *Corruption levels are high*

Cabinet Outcomes:

3. *All people in South Africa are and feel safe*
7. *Vibrant, equitable and sustainable rural communities with food security for all*
8. *Sustainable human settlements and improved quality of household's life enhanced*
10. *Environmental assets and natural resources that are well protected and continually*

KZN Provincial Growth and Development Plan/Strategy

3. *Human and Community Development*
4. *Strategic Infrastructure*
5. *Response to Climate Change*
7. *Spatial Equity*

Back to Basics Program:

1. *Creating decent living conditions*

Zululand District Growth and Development Plan

5. *Environmental Sustainability*
7. *Spatial Equity*

Batho Pele Principles:

- 1: *Consultation*
- 2: *Service Standards*
- 3: *Access*
- 4: *Courtesy*
- 5: *Information*
- 8: *Value for money*
- 6: *Openness and transparency*

AbaQulusi municipality

The goal, focus areas, development strategies and eventual projects of the municipality are all directly aligned with the broader governmental strategic documents to ensure the municipality strive to safeguard a sustainable, safe and well-preserved environment for its current citizens and future generations.

The municipality's integrated approach to provide an enabling and conducive environment where people enjoy better living conditions and a safe life are reflected in the action plans t

Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

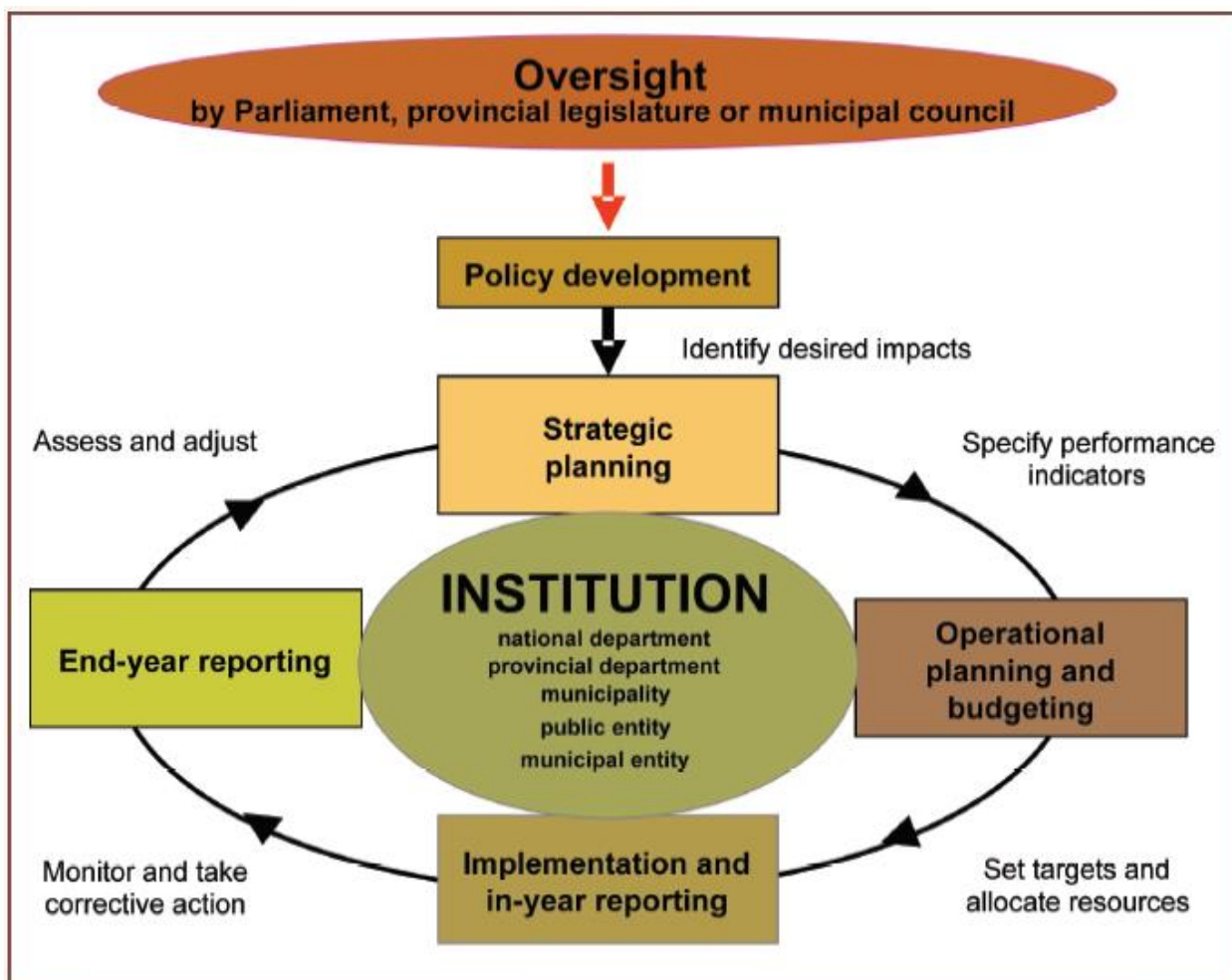


Figure 1 Planning, budgeting and reporting cycle

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

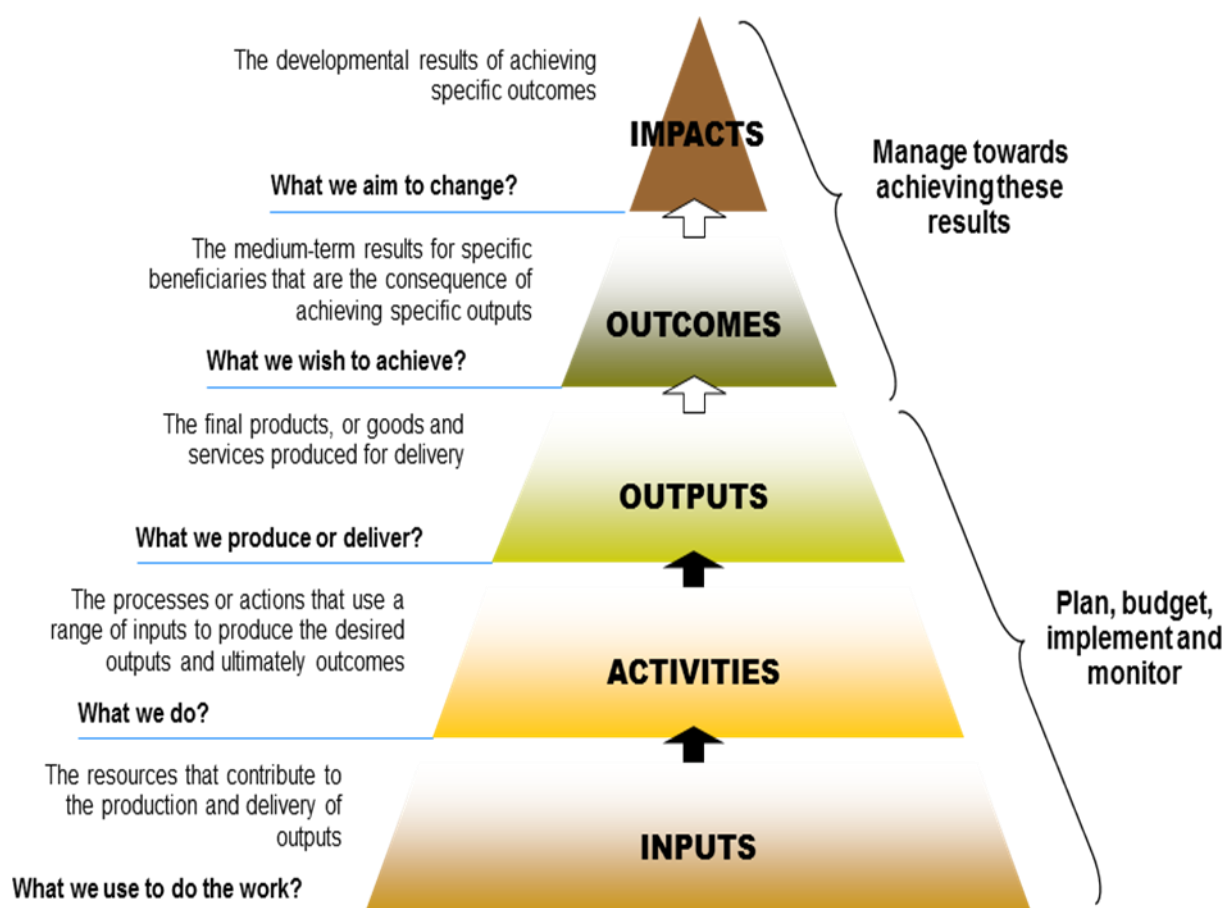


Figure 2 Definition of performance information concepts

The following table provides the main measurable performance objectives the municipality undertakes to achieve this financial year

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Table 19 KZN263 Table SA7 - Measurable performance objectives**KZN263 Abaqulusi - Supporting Table SA7 Measureable performance objectives**

Description	Unit of measurement	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Vote 1 - vote name	SEE ATTACHED									
Function 1 - (name)										
Sub-function 1 - (name)										
Insert measure/s description										
Sub-function 2 - (name)										
Insert measure/s description										
Sub-function 3 - (name)										
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Function 2 - (name)										
Sub-function 1 - (name)										
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Sub-function 3 - (name)										
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Vote 2 - vote name										
Function 1 - (name)										
Sub-function 1 - (name)										
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Sub-function 2 - (name)										
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Sub-function 3 - (name)										
<i>Insert measure/s description</i>										
Vote 3 - vote name										
Function 1 - (name)										
Sub-function 1 - (name)										
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<i>Insert measure/s description</i>										
Sub-function 3 - (name)										
<i>Insert measure/s description</i>										
And so on for the rest of the Votes										

The following table sets out the municipality's main performance objectives and benchmarks for the 2019/20 MTREF.

Table 20 KZN263 Table SA8 - Performance Indicators and Benchmarks

KZN263 Abaqulusi - Supporting Table SA8 Performance indicators and benchmarks

Description of financial indicator	Basis of calculation	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<u>Borrowing Management</u>											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	1.5%	3.3%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	2.0%	4.1%	0.0%	0.2%	0.2%	0.0%	0.0%	0.2%	0.2%	0.2%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Safety of Capital</u>											
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Liquidity</u>											
Current Ratio	Current assets/current liabilities	2.8	5.4	4.9		5.7	5.7	–	5.7	5.7	5.7
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	2.8	5.4	4.9	5.7	5.7	5.7	–	5.7	5.7	5.7
Liquidity Ratio	Monetary Assets/Current Liabilities	0.7	1.2	0.9	0.9	0.9	0.9	–	0.9	0.9	0.9
<u>Revenue Management</u>											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		105.7%	121.4%	76.8%	107.9%	102.2%	0.0%	0.0%	106.4%	106.4%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		105.7%	121.4%	76.8%	107.9%	102.2%	0.0%	0.0%	106.4%	106.4%	106.4%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	4.1%	9.3%	11.6%	11.9%	11.5%	21.6%	0.0%	14.0%	13.1%	12.2%
<u>Creditors Management</u>											

Creditors System Efficiency	% of Creditors Paid Within Terms (within 'MFMA' s 65(e))										
Creditors to Cash and Investments		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Indicators											
	Total Volume Losses (kW)										
	Total Cost of Losses (Rand '000)										
Electricity Distribution Losses (2)	% Volume (units purchased and generated less units sold)/units purchased and generated										
Water Distribution Losses (2)	% Volume (units purchased and generated less units sold)/units purchased and generated										
Employee costs	Employee costs/ (Total Revenue - capital revenue)	27.5%	27.2%	32.2%	29.1%	28.2%	52.9%	0.0%	35.9%	35.4%	35.0%
Remuneration	Total remuneration/ (Total Revenue - capital revenue)	28.5%	30.3%	0.0%	32.9%	0.0%	0.0%		40.5%	39.9%	39.4%
Repairs & Maintenance	R&M/ (Total Revenue excluding capital revenue)	3.4%	4.0%	4.5%	4.0%	0.0%	0.0%		4.9%	4.9%	4.8%
Finance charges & Depreciation	FC&D/ (Total Revenue - capital revenue)	22.6%	17.4%	17.8%	18.1%	16.0%	0.0%	0.0%	20.4%	20.1%	19.9%
IDP regulation financial viability indicators	-										
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	20.7	-	166.4	198.7	198.7	198.7	-	117.8	117.9	124.3
i.e./S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	6.7%	15.4%	16.7%	19.9%	18.8%	22.1%	0.0%	21.8%	20.7%	19.6%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1.4	0.5	3.6	0.5	1.7	(0.9)	-	8.8	16.7	24.2

Performance indicators and benchmarks

Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long-term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Abaqulusi Municipality's borrowing strategy is primarily informed by the affordability of debt repayments. The following financial performance indicators have formed part of the compilation of the 2019/20 MTREF:

- Borrowing to asset ratio is a measure of the long-term borrowing as a percentage of the total asset base of the municipality. This ratio is 0% and must not be considered a measure on borrowing capacity in isolation of other ratios and measures.
- Capital charges to operating expenditure are a measure of the cost of borrowing in relation to the operating expenditure. It can be seen that the cost of borrowing is steady, from 0% in 2015/16 to 0% by 2018/19. It is estimated that the cost of borrowing as a percentage of the operating expenditure will be at 0 % in 2019/20 and will then remain at 0 % at the end of the MTREF. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward as the Municipality has reached its prudential borrowing limits.
- Borrowing funding of own capital expenditure measures the degree to which own capital expenditure (excluding grants and contributions) has been funded by way of borrowing. The average over MTREF is 0 % which substantiates the above-mentioned statement that the Municipality has reached its prudential borrowing limits.

In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality. In particular, the continued ability of the Municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the 2019/20 MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

Safety of Capital

- The debt-to-equity ratio is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, and overdraft and tax provisions as a percentage of funds and reserves. As part of the planning guidelines that informed the compilation of the 2019/20 MTREF ensuring proper cash-backing of reserves and funds has been considered a prudent financial sustainability objective, hence the ration remains at 0%.
- The gearing ratio is a measure of the total long-term borrowings over funds and reserves. The ratio remains at 0%.

Liquidity

- Current ratio is a measure of the current assets divided by the current liabilities and as a benchmark the Municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. For the 2018/19 MTREF the current ratio is 0,9 and in the 2019/20 financial year and remains at 0,9 for the two outer years of the MTREF. Going forward the municipality will have to maintain the ratio above 1.

- The liquidity ratio is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2018/19 financial year the ratio was 0.9 and as part of the financial planning strategy it has remained at 0.9 in the 2019/20 financial year. This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the Municipality. As part of the longer-term financial planning objectives this ratio will have to be set at a minimum of 1.

Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, and credit control and debt collection.

Creditors Management

- The Municipality has not managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality will manage to ensure a 100% compliance rate to this legislative obligation. This is required to have a favourable impact on suppliers' perceptions of risk of doing business with the Municipality, which is expected to benefit the Municipality in the form of more competitive pricing of tenders, as suppliers compete for the Municipality's business.

Other Indicators

- The electricity distribution losses have decreased from 47,41% in 2015/2016 to 22% in 2017/2018. The initiatives to ensure these targets are controlled and lowered during the 2019/20 financial year include managing illegal connections and theft of electricity by auditing all systems, including prepaid meters.
- The water distribution losses continue to decrease from 54% in 2015/16 to 48% in 2017/18. The municipality will have to introduce a water leakage report and action centre. Also, areas currently not metered will have to have meters installed to ensure residents pay for water consumed. It is planned to further try and reduce distribution losses from 50% in 2019/20 to 20% by 2021/22.
- Employee costs as a percentage of operating revenue continues to increase over the MTREF. This is primarily owing to the high increase in bulk purchases which directly increase revenue levels, as well as increased allocation relating to operating grants and transfers.
- Similar to that of employee costs, repairs and maintenance as percentage of operating revenue is also decreasing owing directly to cost drivers such as bulk purchases increasing far above inflation. In real terms, repairs and maintenance has increased as part of the Municipality's strategy to ensure the management of its asset base.

Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality. Only registered indigents qualify for the free basic services and all indigents must apply annually and these applications will be scrutinized to ensure they are genuine.

For the 2019/20 financial year registered indigents have been provided for in the budget with this figured increasing by 2021/22. In terms of the Municipality's indigent policy registered households are entitled to 6kl free water, 50 kwh of electricity, 6 kl sanitation and free waste removal equivalent to 85ℓ once a week, as well as a discount on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 A10 (Basic Service Delivery Measurement) on page 75

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

Providing clean water and managing waste water

The Municipality is in the process of applying to the Department of Water Affairs to become the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. The water is generated from the Municipality's own water sources, such as boreholes and small dams.

The waste water plants will require renewals/upgrading to meet the minimum Green Drop certification standards. This has been prioritised as part of the 2019/20 medium term capital budget.

The following is briefly the main challenges facing the Municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;*
- Shortage of skilled personnel makes proper operations and maintenance difficult;*
- There is a lack of proper regional catchment management, resulting in storm water entering the sewerage system.*

The following are some of the steps that need to be undertaken to address these challenges:

- Infrastructure shortcomings will be addressed through the capital budget in terms of a 5-year upgrade plan;*
- The filling of vacancies has commenced and the Waste Water Section will embark on an in-house training programme, especially for operational personnel;*
- The Section is working in consultation with the Department of Water Affairs to address catchment management.*

Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Review of credit control and debt collection procedures/policies

The policy adopted last year is credible, sustainable, manageable and informed by affordability and value for money. During the 2019/20 financial year there will be a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition, emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, an Integrated Indigent Exit Programme will have to be developed to link the registered indigent households to development, skills and job opportunities. The programme will further seek to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

The 2019/20 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 92% on current billings. In addition, the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the Municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

Asset Management, Infrastructure Investment and Funding Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the Municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. An Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and utilised as a guide to the selection and prioritisation of individual capital projects. In addition, the policy will prescribe the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

Supply Chain Management Policy

The amended Supply Chain Management Policy must be adopted by Council in May 2019. The amendments must be extensively consulted on before the adoption in May 2019.

Budget and Virements Policy

The Budget and Virements Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations. The Budget and Virements Policy was amended to ensure it is mSCOA compliant and needs to be approved by Council in May 2019 in respect of both Operating and Capital Budget Fund Transfers.

Cash Management and Investment Policy

The Municipality's Cash Management and Investment Policy needs to be approved by Council in May 2019. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and a cash equivalent required at any point in time and introduces time frames to achieve certain benchmarks. The amendment is to ensure the policy is GRAP compliant.

Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

Financial Modelling and Scenario Planning Policy

The Financial Modelling and Scenario Planning Policy will be compiled during the 2019/20 MTREF with the emphasis on affordability and long-term sustainability. The policy will dictate the approach to longer term financial modelling. The outcomes will then be filtered into the budget process. The model and scenario planning outcomes will be taken to Council every November and then translate into recommendations for the budget guidelines that inform the compilation of the next MTREF. One of the salient features of the policy will be the emphasis on financial sustainability. Amongst others, the following will be modelled as part of the financial modelling and scenario planning process:

- Approved 2018/19 Adjustments Budget;
- Cash Flow Management Interventions, Initiatives and Strategies (including the cash backing of reserves);
- Economic climate and trends (i.e. Inflation, household debt levels, indigent factors, growth, recessionary implications);
- Loan and investment possibilities;
- Performance trends;
- Tariff Increases;
- The ability of the community to pay for services (affordability);
- Policy priorities;
- Improved and sustainable service delivery; and
- Debtor payment levels.

All the above existing policies are available on the Municipality's website, and all new policies will be placed on the website once adopted by Council. These include the following budget related policies:

- Property Rates Policy;
- Funding and Reserves Policy;
- Borrowing Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

Overview of budget assumptions

External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2019/20 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration. Employee related costs comprise 31% of total operating expenditure in the 2019/20 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget

Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (90%) of annual billings. Cash flow is assumed to be 90% of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition, the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

Salary increases

The multi-year Salary and Wage Collective Agreement from SALGBC has expired and consultations are still ongoing until National Treasury advise the outcome, the municipality has budget for an annual increase of 7% for the 2019/20 financial year and for the two outer years 6%.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and, in this regard, various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 97 % is achieved on operating expenditure and 98% on the capital programme for the 2019/20 MTREF of which performance has been factored into the cash flow budget.

Overview of budget funding

Medium-term outlook: operating revenue

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Municipality derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The revenue strategy is a function of key components such as:

- Growth in the municipality and economic development;
- Revenue management and enhancement;
- Achievement of a 90 % annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

The proposed tariff increases for the 2019/20 MTREF on the different revenue categories are:

Revenue to be generated from property rates is R78,7 million in the 2019/20 financial year and increases to R89,3 million by 2021/22 which represents 14,35% of the operating revenue base of the Municipality. It remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

The Municipality is still in a process of further data verification and validation relating to the valuation roll. As the levying of property rates is considered strategic revenue source further supplementary valuation processes will be undertaken during the 2019/20 financial year. The outcome of this initiative will be closely monitored and reported on a regular basis as part of the quarterly performance reporting.

Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R 229,8 million for the 2019/20 financial year and increasing to R 260,6 million by 2021/22. For the 2019/20 financial year services charges amount to 43,47% of the total revenue base and remains constant over the medium-term.

Operational grants and subsidies amount to R 179,8 million, R 187,6 million and R 202,5 million for each of the respective financial years of the MTREF, or 38,43%, 34,55% and 35,37% of operating revenue. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF. The percentage of the total operational grants and transfers in relation to the total operating revenue is distorted owing to the high increases in revenue relating to services charges.

Investment revenue contributes marginally to the revenue base of the Municipality with a budget allocation of R1 million, R1 million and R 1,1 million for the respective three financial years of the 2019/20 MTREF. It needs to be noted that these allocations have been conservatively estimated and as part of the cash backing of reserves and provisions. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

The tables below provide detail investment information and investment particulars by maturity.

Table 21 KZN263 SA15 – Detail Investment Particulars by type**KZN263 Abaqulusi - Supporting Table SA15 Investment particulars by type**

Investment type	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand										
<u>Parent municipality</u>										
Securities - National Government										
Listed Corporate Bonds										
Deposits - Bank										
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Municipal Bonds										
Municipality sub-total	1	-	-	-	-	-	-	-	-	-
<u>Entities</u>										
Securities - National Government										
Listed Corporate Bonds										
Deposits - Bank										
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Entities sub-total		-	-	-	-	-	-	-	-	-
Consolidated total:		-	-	-	-	-	-	-	-	-

Table 22 KZN263 SA16 – Investment Particulars by Maturity**KZN263 Abaqulusi - Supporting Table SA16 Investment particulars by maturity**

Investments by Maturity	Ref	Period of Investment	Type of Investment	Capital Guarantee (Yes/ No)	Opening balance	Closing Balance
Name of institution & investment ID	1	Yrs/Months				
Parent municipality						
Nedbank			Call			-
Standard Bank			Call			-
Standard Bank			Call			-
ABSA			Call			-
						-
						-
						-
Municipality sub-total					-	-
Entities						
						-
						-
						-
						-
						-
Entities sub-total					-	-
TOTAL INVESTMENTS AND INTEREST	1				-	-

For the medium-term, the funding strategy has been informed directly by ensuring financial sustainability and continuity. The draft MTREF therefore provides for a budgeted deficit of R million and then R million and R in each of the financial years which are for the non-cash items of depreciation and provisions. The municipality is seriously busy with an exercise of auditing of meters for electricity in the 2019/20 financial year.

Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2019/20 medium-term capital programme:

Table 23 Sources of Capital Revenue over the MTREF – Medium Term Revenue & Expenditure Framework A5 Capital

Funded by:									
National Government		49 911	49 687		50 076	50 076	37 100	39 075	41 865
Provincial Government		–	–						
District Municipality		–	–						
Other transfers and grants		–	–						
Transfers recognised - capital	4	49 911	49 687	–	50 076	50 076	37 100	39 075	41 865
Public contributions & donations	5	–	–						
Borrowing	6	–	–						
Internally generated funds		5 612	7 334		9 347	1 930			
Total Capital Funding	7	55 523	57 021	–	59 423	52 006	37 100	39 075	41 865

Figure 3 Sources of capital revenue for the 2019/20 financial year

Capital grants and receipts represents R 0 million from own funding and R37,1 million from grant funding for the 2019/20 financial year.

The following table is a detailed analysis of the Municipality's borrowing liability. (SA 17)

Table 24 KZN263 Table SA 17 - Detail of Borrowings Categorised by Type

KZN263 Abaqulusi - Supporting Table SA17 Borrowing

Borrowing - Categorised by type R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Parent municipality										
Annuity and Bullet Loans										
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	-	-	-	-	-	-	-	-	-
Entities										
Annuity and Bullet Loans										
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										

Other Securities										
Entities sub-total	1	-	-	-	-	-	-	-	-	-
Total Borrowing	1	-	-	-	-	-	-	-	-	-
Unspent Borrowing - Categorised by type										
Parent municipality										
Long-Term Loans (annuity/reducing balance)										
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	-	-	-	-	-	-	-	-	-
Entities										
Long-Term Loans (annuity/reducing balance)										
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Entities sub-total	1	-	-	-	-	-	-	-	-	-
Total Unspent Borrowing	1	-	-	-	-	-	-	-	-	-

Figure 4 Growth in outstanding borrowing (long-term liabilities)

Internally generated funds consist of a mixture between surpluses generated on the operating statement of financial performance and cash backed reserves. In determining the credibility of this funding source, it becomes necessary to review the cash flow budget as well as the cash backed reserves and accumulated funds reconciliation, as discussed below.

Table 25 KZN263 Table SA 18 - Capital transfers and Grant Receipts

KZN263 Abaqulusi - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
RECEIPTS:	1, 2									
<u>Operating Transfers and Grants</u>										
National Government:		129 193	129 913	135 462	(164 890)	157 541	150 041	172 970	183 021	195 969
Local Government Equitable Share		106 246	106 890	117 257	(145 195)	130 276	130 276	148 281	160 034	173 038
Finance Management		1 600	1 625	1 700	(1 700)	1 770	1 770	2 235	2 667	2 931
Municipal Systems Improvement		930	–	–	(1 700)	1 700	1 700	1 800		
Integrated National Electrification Programme		19 000	20 000	15 000	(15 000)	22 500	15 000	19 000	20 320	20 000
EPWP Incentive		1 417	1 398	1 505	(1 295)	1 295	1 295	1 654		
Other transfers/grants [insert description]										
Provincial Government:		–	4 068	4 052	(1 700)	4 303	4 111	4 986	4 732	5 010
Sport and Recreation				–	–	50	50			
Arts & Culture - Museum			175	183	–	192		202	213	225
Arts & Culture - Library - Provincial			3 714	2 963	–	3 111	3 111	3 267	3 430	3 619
Arts & Culture - Community Library			179	906	(1 700)	950	950	1 017	1 089	1 166
COGTA - Building Plans Mgmt System								500		
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	–	–	–	–	–
[insert description]										
Total Operating Transfers and Grants	5	129 193	133 981	139 514	(166 590)	161 844	154 152	177 956	187 753	200 979
<u>Capital Transfers and Grants</u>										
National Government:		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Municipal Infrastructure Grant (MIG)		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865

Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Capital Transfers and Grants	5	39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
TOTAL RECEIPTS OF TRANSFERS & GRANTS		168 759	164 136	177 254	(130 156)	198 278	190 586	215 091	226 828	242 844

Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding ability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from "Ratepayers and other" to be provided for as cash inflow based on actual performance. In other words, the actual collection rate of billed revenue, and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long-term borrowing (debt).

The above table shows that cash and cash equivalents of the Municipality were largely depleted between the 2015/16 and 2018/19 financial year moving from a positive cash balance of R36 million to a balance of R16,9 million with the approved 2018/19 MTREF. With the 2018/19 adjustments budget various cost efficiencies and savings had to be realised to ensure the Municipality could meet its operational expenditure commitments. In addition, the Municipality will have to undertake an extensive debt collection process to boost cash levels in the 2019/20 financial year. These initiatives and interventions still translate into a negative cash position for the Municipality and it is projected that cash and cash equivalents on hand will decrease by the financial year end. For the 2019/20 MTREF the budget has been prepared to ensure high levels of cash and cash equivalents over the medium-term with cash levels anticipated to increase in 2019/20 and steadily increase by 2021/22. This schedule will be revisited before the final draft is presented in May 2019.

Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with Sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with Section 18 of the MFMA requirement that the municipality's budget must be "funded". Non-compliance with Section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

From the above table it can be seen that the cash and investments available total R 11,7 million in the 2019/20 financial year and remains constant to 2021/22, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding:

- *Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year. In the past these have been allowed to 'roll-over' and be spent in the ordinary course of business, but this practice has been discontinued. During the 2018/19 financial year the municipality was required to supply National Treasury with a detailed analysis of the unspent grants as well as an action plan of spending the grants. For the 2019/20 financial year no provision has been made for this liability as the total unspent conditional grant liability has been factored into the 2019/20 capital programme of the Municipality. The Municipality will apply for the necessary roll-over approval from the National Treasury as the funding appropriation relating to the unspent conditional grants needs to be motivated as part of existing projects.*
- *There is no unspent borrowing from the previous financial years. In terms of the municipality's Borrowing and Investments Policy, borrowings are only drawn down once the expenditure has been incurred against the particular project.*
- *Provisions for statutory requirements include VAT owing to timing differences resulting from year-end obligations. The municipality will not have a liability as VAT is normally claimed from SARS.*
- *The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch between the timing of receipts of funds from debtors and payments due to employees and creditors. High levels of debtor non-payment and receipt delays will have a greater requirement for working capital, as was experienced by the Municipality in 2018/19 resulting in cash flow challenges. For the purpose of the cash backed reserves and accumulated surplus reconciliation a provision equivalent to one month's operational expenditure has been provided for. It needs to be noted that although this can be considered prudent, the desired cash levels should be 60 days to ensure continued liquidity of the municipality. Any underperformance in relation to collections could place upward pressure on the ability of the Municipality to meet its creditor obligations.*

The 2019/20 MTREF has been informed by ensuring the financial plan meets the minimum requirements of the MFMA. Nevertheless, from a pure cash flow perspective (cash out flow versus cash inflow) the budget is not funded as expenditure is more than the anticipated revenue. The challenge for the Municipality will be to ensure that the underlying planning and cash flow assumptions are meticulously managed, especially the performance against the collection rate.

Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Cash/cash equivalent position

The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A "positive" cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality's forecast cash position is negative, for any year of the medium-term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with Section 45 of the MFMA which deals with the repayment of short-term debt at the end of the financial year. The forecasted cash and cash equivalents for the 2019/20 MTREF shows a surplus of R11,7 million increasing to R26 million in 2020/21 and R34,1 million in 2021/22.

Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 25, on page 68. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the Municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. As indicated above the Municipality aims to achieve at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An

'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term. For the 2019/20 MTREF the indicative outcome is a deficit of R116 million.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

Property Rates/service charge revenue as a percentage increase less macro inflation target

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

The factor is calculated by deducting the maximum macro-economic inflation target increase (which is currently 5%). The result is intended to be an approximation of the real increase in revenue. However, the outcome is lower than it might be due to the slowdown in the economy and a reduction in consumption patterns. This trend will have to be carefully monitored and managed with the implementation of the budget.

Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are "collected". This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget. It can be seen that the outcome is at 100% for each of the respective financial years. Given that the assumed collection rate was based on a 92% performance target, the cash flow statement has been conservatively determined. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly.

Debt impairment expense as a percentage of billable revenue

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. The provision has been appropriated at 0% over the MTREF. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been excluded. It can be seen that borrowing equates to 0% of own funded capital. Further details relating to the borrowing strategy of the Municipality can be found on page 104.

Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 % could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The Municipality has budgeted for all transfers.

Consumer debtors change (Current and Non-current)

The purpose of these measures is to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the Municipality's policy of settling debtors' accounts within 30 days.

Repairs and maintenance expenditure level

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. Details of the Municipality's strategy pertaining to asset management and repairs and maintenance are contained in Table 60 KZN263 SA34C on page 155.

Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for 'repairs and maintenance' budgets. Further details in this regard are contained in Table 59 SA34b on page 152

Expenditure on grants and reconciliations of unspent funds

Table 45 KZN263 SA19 – Expenditure on Transfers and Grant Programmes

KZN263 Abaqulusi - Supporting Table SA19 Expenditure on transfers and grant programme

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
EXPENDITURE:	1									
<u>Operating expenditure of Transfers and Grants</u>										
National Government:		129 193	129 913	135 462	(164 890)	157 541	150 041	172 970	183 021	195 969
Local Government Equitable Share		106 246	106 890	117 257	(145 195)	130 276	130 276	148 281	160 034	173 038
Finance Management		1 600	1 625	1 700	(1 700)	1 770	1 770	2 235	2 667	2 931
Municipal Systems Improvement		930	–	–	(1 700)	1 700	1 700	1 800		
Integrated National Electrification Programme		19 000	20 000	15 000	(15 000)	22 500	15 000	19 000	20 320	20 000
EPWP Incentive		1 417	1 398	1 505	(1 295)	1 295	1 295	1 654		
Other transfers/grants [insert description]										
Provincial Government:		–	4 068	4 052	(1 700)	4 303	4 111	4 986	4 732	5 010
Sport and Recreation				–	–	50	50			
Arts & Culture - Museum			175	183	–	192		202	213	225
Arts & Culture - Library - Provincial			3 714	2 963	–	3 111	3 111	3 267	3 430	3 619
Arts & Culture - Community Library			179	906	(1 700)	950	950	1 017	1 089	1 166
COGTA - Building Plans Mgmt System								500		
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	–	–	–	–	–
[insert description]										
Total operating expenditure of Transfers and Grants:		129 193	133 981	139 514	(166 590)	161 844	154 152	177 956	187 753	200 979
<u>Capital expenditure of Transfers and Grants</u>										
National Government:		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865

Municipal Infrastructure Grant (MIG)		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total capital expenditure of Transfers and Grants		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		168 759	164 136	177 254	(130 156)	198 278	190 586	215 091	226 828	242 844

Table 26 KZN263 SA 20 - Reconciliation between of transfers, grant receipts and unspent funds

KZN263 Abaqulusi - Supporting Table SA20 Reconciliation of transfers, grant receipts and unspent funds

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand										
Operating transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year										
Current year receipts		129 193	129 913	135 598	135 056	157 541	157 541	172 970	183 021	195 969
Conditions met - transferred to revenue		129 193	129 913	135 598	135 056	157 541	157 541	172 970	183 021	195 969
Conditions still to be met - transferred to liabilities										
Provincial Government:										
Balance unspent at beginning of the year										
Current year receipts		5 522	4 068	4 052	4 253	4 303	4 111	4 986	4 732	5 010
Conditions met - transferred to revenue		5 522	4 068	4 052	4 253	4 303	4 111	4 986	4 732	5 010
Conditions still to be met - transferred to liabilities										
District Municipality:										
Balance unspent at beginning of the year										
Current year receipts										
Conditions met - transferred to revenue		-	-	-	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
Other grant providers:										
Balance unspent at beginning of the year										
Current year receipts										
Conditions met - transferred to revenue		-	-	-	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
Total operating transfers and grants revenue		134 715	133 981	139 650	139 309	161 844	161 652	177 956	187 753	200 979
Total operating transfers and grants - CTBM	2	-	-	-	-	-	-	-	-	-
Capital transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year										
Current year receipts		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Conditions met - transferred to revenue		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Conditions still to be met - transferred to liabilities										
Provincial Government:										
Balance unspent at beginning of the year										
Current year receipts										

Conditions met - transferred to revenue Conditions still to be met - transferred to liabilities District Municipality: Balance unspent at beginning of the year Current year receipts Conditions met - transferred to revenue Conditions still to be met - transferred to liabilities Other grant providers: Balance unspent at beginning of the year Current year receipts Conditions met - transferred to revenue Conditions still to be met - transferred to liabilities		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Total capital transfers and grants revenue		39 566	30 155	37 740	36 434	36 434	36 434	37 135	39 075	41 865
Total capital transfers and grants - CTBM	2	-	-	-	-	-	-	-	-	-
TOTAL TRANSFERS AND GRANTS REVENUE		174 281	164 136	177 390	175 743	198 278	198 086	215 091	226 828	242 844
TOTAL TRANSFERS AND GRANTS - CTBM		-	-	-	-	-	-	-	-	-

Contracts having future budgetary implications

In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

Capital expenditure details

The following three tables present details of the Municipality's capital expenditure programme, firstly on new assets, then the renewal of assets and finally on the repair and maintenance of assets.

Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website.

2. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the Municipality has successfully employed and trained interns through this programme and a majority of them were appointed either in the Municipality or other municipalities.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2019/20 MTREF in June 2019 directly aligned and informed by the 2019/20 MTREF.

6. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

The MFMA training module in electronic format is presented for the Municipality's internal employees and training is on-going.

Policies

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009 was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

Table 27 KZN263 Table SA3 – Supporting detail to Statement of Financial Position

KZN263 Abaqulusi - Supporting Table SA3 Supporting detail to 'Budgeted Financial Position'

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand											
ASSETS											
<u>Call investment deposits</u>											
Call deposits											
Other current investments											
Total Call investment deposits	2	-	-	-	-	-	-	-	-	-	-
<u>Consumer debtors</u>											
Consumer debtors											
Less: Provision for debt impairment											
Total Consumer debtors	2	-	-	-	-	-	-	-	-	-	-
<u>Debt impairment provision</u>											
Balance at the beginning of the year											
Contributions to the provision											
Bad debts written off											
Balance at end of year		-	-	-	-	-	-	-	-	-	-
<u>Property, plant and equipment (PPE)</u>											
PPE at cost/valuation (excl. finance leases)											
Leases recognised as PPE											
Less: Accumulated depreciation											
Total Property, plant and equipment (PPE)	2	-	-	-	-	-	-	-	-	-	-
LIABILITIES											
<u>Current liabilities - Borrowing</u>											
Short term loans (other than bank overdraft)											
Current portion of long-term liabilities											
Total Current liabilities - Borrowing		-	-	-	-	-	-	-	-	-	-
<u>Trade and other payables</u>											
Trade Payables											
Other creditors	5										

Unspent conditional transfers											
VAT											
Total Trade and other payables	2	-	-	-	-	-	-	-	-	-	-
Non current liabilities - Borrowing											
Borrowing	4										
Finance leases (including PPP asset element)											
Total Non current liabilities - Borrowing		-	-	-	-	-	-	-	-	-	-
Provisions - non-current											
Retirement benefits											
List other major provision items											
Refuse landfill site rehabilitation											
Other											
Total Provisions - non-current		-	-	-	-	-	-	-	-	-	-
CHANGES IN NET ASSETS											
Accumulated Surplus/(Deficit)											
Accumulated Surplus/(Deficit) - opening balance											
GRAP adjustments											
Restated balance		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit)		-	-	-	-	-	-	-	-	-	-
Appropriations to Reserves											
Transfers from Reserves											
Depreciation offsets											
Other adjustments											
Accumulated Surplus/(Deficit)	1	-	-	-	-	-	-	-	-	-	-
Reserves	-										
Housing Development Fund											
Capital replacement											
Self-insurance											
Other reserves											
Revaluation											
Total Reserves	2	-	-	-	-	-	-	-	-	-	-
TOTAL COMMUNITY WEALTH/EQUITY	2	-	-	-	-	-	-	-	-	-	-

Total capital expenditure includes expenditure on nationally significant priorities:

Provision of basic services											

Table 28 KZN263 Table SA9 – Social, Economic and Demographic Statistics and Assumptions**KZN263 Abaqulusi - Supporting Table SA9 Social, economic and demographic statistics and assumptions**

Description of economic indicator	Ref.	Basis of calculation	2001 Census	2007 Survey	2011 Census	2015/16	2016/17	2017/18	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
						Outcome	Outcome	Outcome	Original Budget	Outcome	Outcome	Outcome
Demographics												
Population												
Females aged 5 - 14												
Males aged 5 - 14												
Females aged 15 - 34												
Males aged 15 - 34												
Unemployment												
Monthly household income (no. of households)	1, 12											
No income												
R1 - R1 600												
R1 601 - R3 200												
R3 201 - R6 400												
R6 401 - R12 800												
R12 801 - R25 600												
R25 601 - R51 200												
R52 201 - R102 400												
R102 401 - R204 800												
R204 801 - R409 600												
R409 601 - R819 200												
> R819 200												
Poverty profiles (no. of households)												
< R2 060 per household per month	13											
Insert description	2											
Household/demographics (000)												
Number of people in municipal area												
Number of poor people in municipal area												

Number of households in municipal area												
Number of poor households in municipal area												
Definition of poor household (R per month)												
Housing statistics	3											
Formal												
Informal												
Total number of households			-	-	-	-	-	-	-	-	-	-
Dwellings provided by municipality	4											
Dwellings provided by province/s												
Dwellings provided by private sector	5											
Total new housing dwellings			-	-	-	-	-	-	-	-	-	-
Economic	6											
Inflation/inflation outlook (CPIX)												
Interest rate - borrowing												
Interest rate - investment												
Remuneration increases												
Consumption growth (electricity)												
Consumption growth (water)												
Collection rates	7											
Property tax/service charges												
Rental of facilities & equipment												
Interest - external investments												
Interest - debtors												
Revenue from agency services												

KZN263 Abaqulusi - Table A10 Basic service delivery measurement

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Household service targets	1									
<u>Water:</u>										
Piped water inside dwelling		17 237	34 261	67	67	67	67	67	67	67
Piped water inside yard (but not in dwelling)		14 020	–	65	65	65	65	65	65	65
Using public tap (at least min. service level)	2	14	14	14	14	14	14	14	14	14
Other water supply (at least min. service level)	4	12	12	7	7	7	7	7	7	7
<i>Minimum Service Level and Above sub-total</i>		31 283	34 287	153	153	153	153	153	153	153
Using public tap (< min. service level)	3	3 207	3 207	3 207	3 207	3 207	3 207	3 207	3 207	3 207
Other water supply (< min. service level)	4	1 919	1 919	1 919	1 919	1 919	1 919	1 919	1 919	1 919
No water supply		40 232	40 232	40 232	40 232	40 232	40 232	40 232	40 232	40 232
<i>Below Minimum Service Level sub-total</i>		45 358	45 358	45 358	45 358	45 358	45 358	45 358	45 358	45 358
Total number of households	5	76 641	79 645	45 511	45 511	45 511	45 511	45 511	45 511	45 511
<u>Sanitation/sewerage:</u>										
Flush toilet (connected to sewerage)		68 157	68 157	68 157	68 157	68 157	68 157	68 157	68 157	68 157
Flush toilet (with septic tank)		4 506	4 506	4 506	4 506	4 506	4 506	4 506	4 506	4 506
Chemical toilet		11 208	11 208	11 208	11 208	11 208	11 208	11 208	11 208	11 208
Pit toilet (ventilated)		22 379	22 379	22 379	22 379	22 379	22 379	22 379	22 379	22 379
Other toilet provisions (> min. service level)		–	–	–	–	–	–	–	–	–
<i>Minimum Service Level and Above sub-total</i>		106 250	106 250	106 250	106 250	106 250	106 250	106 250	106 250	106 250
Bucket toilet		919	919	919	919	919	919	919	919	919
Other toilet provisions (< min. service level)		53 876	53 876	53 876	53 876	53 876	53 876	53 876	53 876	53 876
No toilet provisions		28 842	28 842	28 842	28 842	28 842	28 842	28 842	28 842	28 842
<i>Below Minimum Service Level sub-total</i>		83 637	83 637	83 637	83 637	83 637	83 637	83 637	83 637	83 637
Total number of households	5	189 887	189 887	189 887	189 887	189 887	189 887	189 887	189 887	189 887
<u>Energy:</u>										
Electricity (at least min. service level)		19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781
Electricity - prepaid (min. service level)		–	–	–	–	–	–	–	–	–
<i>Minimum Service Level and Above sub-total</i>		19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781	19 781
Electricity (< min. service level)		–	–	–	–	–	–	–	–	–
Electricity - prepaid (< min. service level)		–	–	–	–	–	–	–	–	–
Other energy sources		3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243
<i>Below Minimum Service Level sub-total</i>		3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243	3 243
Total number of households	5	23 024	23 024	23 024	23 024	23 024	23 024	23 024	23 024	23 024
<u>Refuse:</u>										

Removed at least once a week		11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257
<i>Minimum Service Level and Above sub-total</i>		11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257	11 257
Removed less frequently than once a week		1 270	1 270	1 270	1 270	1 270	1 270	1 270	1 270	1 270
Using communal refuse dump		1 763	1 763	1 763	1 763	1 763	1 763	1 763	1 763	1 763
Using own refuse dump		105 738	105 738	105 738	105 738	105 738	105 738	105 738	105 738	105 738
Other rubbish disposal		3 816	3 816	3 816	3 816	3 816	3 816	3 816	3 816	3 816
No rubbish disposal		15 010	15 010	15 010	15 010	15 010	15 010	15 010	15 010	15 010
<i>Below Minimum Service Level sub-total</i>		127 597	127 597	127 597	127 597	127 597	127 597	127 597	127 597	127 597
Total number of households	5	138 854	138 854	138 854	138 854	138 854	138 854	138 854	138 854	138 854

Highest level of free service provided per household										
Property rates (R value threshold)		15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
Water (kilolitres per household per month)		6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)										
Sanitation (Rand per household per month)										
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)										
Revenue cost of subsidised services provided (R'000)		9								
Property rates (tariff adjustment) (impermissible values per section 17 of MPRA)			15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
Property rates exemptions, reductions and rebates and impermissible values in excess of section 17 of MPRA)			-	-	-	-	-	-	-	-
Water (in excess of 6 kilolitres per indigent household per month)			-	-	-	-	-	-	-	-
Sanitation (in excess of free sanitation service to indigent households)			-	-	-	-	-	-	-	-
Electricity/other energy (in excess of 50 kwh per indigent household per month)			-	-	-	-	-	-	-	-
Refuse (in excess of one removal a week for indigent households)			-	-	-	-	-	-	-	-
Municipal Housing - rental rebates		6								
Housing - top structure subsidies										
Other										
Total revenue cost of subsidised services provided			15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000

Table 29 KZN263 SA32 – List of External Mechanisms**KZN263 Abaqulusi - Supporting Table SA32 List of external mechanisms**

External mechanism	Yrs/ Mths	Period of agreement 1.	Service provided	Expiry date of service delivery agreement or contract	Monetary value of agreement 2.
Name of organisation		Number			R thousand
Magnacorp			Refuse Removal		6 198
Uhaqane M1			Refuse Removal		4 788
PWC			Preparation of AFS		1 200
Qomkufa Trading	Mths		Security		11 561
Ekaya Promotions	Mths		Protective Clothing		250
RIS Motors			Car Rental		2 485
Valuation Roll			Valuation Roll		1 500
Quantum Leap Investments			Grass cutting & cleaning		6 700
EOH			Caretakers at dam		89
ITEC			Office Machine Rental		540
Daisy Communications			Office Machine Rental		350
Nashua			Office Machine Rental		30
Protea Coin			Cash Collection		308
Munsoft			IT Rental		2 000
Payday			Payroll Support		100
Trafman			Traffic Summons System		100
Nashua			Office Machine Rental		63
Otis			Office Machine Rental		15
Link Up Security			After Hours Monitoring		600
Mazn Pty Ltd			Meter Reading		1 342
Siwella Funerals			Indigent Burials		600
Garlicke & Bousfield			Lawyers		1 000
Vehicle leases			Leasing of Graders		10 000
Vehicle leases			Leasing of vehicles		10 000
Steiner Hygiene			Hygiene suppliers		134
Brandfin			Speed Fine Machine Rental		145
Matsiya Construction Engineering			Testing, fault location		219
Inside Data South Pty Ltd			Printing, Posting accounts		136
Contour			Commission on vendor		1 200
Schindler Lifts SA			Servicing of lift		30

KEV		Connections/Disconnections	1 333
ADO Research		Vending machines	318
Bigen Africa		Debt Collection	3 600
Louwsburg Spar		Rental Agreement	20
Mweb		Internet	80
C Vermaak		Louwsburg Services	400
Windeed		Clearance Certificates	36
Muncomp		Records System	180
Telkom		Telephone	1 200
Auditor-General		Audit	2 500
Rheochem		Chemicals	5 000
Netstar		Tracker for own vehicles	150
Marsh		Insurance	2 000
SALGA		Membership	2 000

Our Ref.:
Your Ref.

Enquiries:
Dept.: Finance



✉ VRYHEID 3100

c/o, Mark & High Street

☎ (034) 982-2133

📠 Fax: (034) 982-1939

E-mail: finance@abaqulusi.gov.za

QUALITY CERTIFICATE

I, **BE NTANZI**, Municipal Manager of **ABAQULUSI MUNICIPALITY**, hereby certify that: (mark as appropriate)

- ☐ The monthly budget statement
- ☐ Quarterly report on the implementation of the budget and financial state of affairs to the municipality
- ☐ Mid-year budget and performance assessment
- ☒ Draft Medium Term Budget

The Draft Medium Term Budget for 2019/20 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

BE NTANZI
MUNICIPAL MANAGER
ABAQULUSI MUNICIPALITY
KZN263

SIGNATURE: _____

DATE: _____

Annexure A - Tariffs

Annexure B - Government Provincial Allocation

Annexure C - “A” Schedule

Annexure D - Signing Budget Locking Certificate

Certification that the adopted budget for 2019/20 is correctly captured and locked on the municipality's financial management system

(as requested by National Treasury in terms of section 74 of the MFMA, with reference to paragraph 6.3 of MFMA Budget Circular 59 dated 16 March 2012)

I,, in my capacity as accounting officer of the municipality, hereby certify that:

- *The adopted annual budget has been captured on the municipality's financial system;*
- *There is 100 per cent reconciliation between the budget on the system and the budget adopted by council;*
- *The adopted annual budget on the municipality's financial system is locked and will not be changed as it serves as the baseline against which to monitor and measure performance; and*
- *The relevant budget return forms have been submitted to the local government database.*

I, further certify that the municipality has in place controls to ensure that any changes to the adopted budget will be captured separately and only in accordance with:

- *a virement authorised by the municipal manager, or duly delegate official, in terms of a council approved virements policy; and*
- *an adjustments budget approved by council.*

Print Name _____

Municipal manager of _____
(name and demarcation code of municipality)

Signature _____

Date _____

This certificate must be submitted to National Treasury by close of business 7 April 2019 at the following email address: lqdocuments@treasury.gov.za.

Also send copies to the Auditor General and the relevant provincial treasury

Annexure E - Service Level Standards

Province: Municipality (KZN263) - Schedule of Service Delivery Standards Table	
Description Standard	Service Level
Solid Waste Removal	
Premise based removal (Residential Frequency)	Weekly
Premise based removal (Business Frequency)	Daily
Bulk Removal (Frequency)	Weekly
Removal Bags provided (Yes/No)	No
Garden refuse removal Included (Yes/No)	No
Street Cleaning Frequency in CBD	Daily
Street Cleaning Frequency in areas excluding CBD	No
How soon are public areas cleaned after events (24hours/48hours/longer)	48 hours
Clearing of illegal dumping (24hours/48hours/longer)	Longer
Recycling or environmentally friendly practices (Yes/No)	No
Licenced landfill site (Yes/No)	Yes
Water Service	
Water Quality rating (Blue/Green/Brown/N0 drop)	No drop
Is free water available to all? (All/only to the indigent consumers)	Only to indigent consumers and consumers in ZDM areas who are not metered
Frequency of meter reading? (per month, per year)	Monthly
Are estimated consumption calculated on actual consumption over (two month's/three months'/longer period)	Read on a monthly basis
On average for how long does the municipality use estimates before reverting back to actual readings? (months)	N/A
Duration (hours) before availability of water is restored in cases of service interruption (complete the sub questions)	
One service connection affected (number of hours)	4 hours
Up to 5 service connection affected (number of hours)	4 hours
Up to 20 service connection affected (number of hours)	16 hours
Feeder pipe larger than 800mm (number of hours)	24 hours
What is the average minimum water flow in your municipality?	240 mg lt/month
Do you practice any environmental or scarce resource protection activities as part of your operations? (Yes/No)	No
How long does it take to replace faulty water meters? (days)	1 hour
Do you have a cathodic protection system in place that is operational at this stage? (Yes/No)	No

Province: Municipality (KZN263) - Schedule of Service Delivery Standards Table	
Description Standard	Service Level
Electricity Service	
What is your electricity availability percentage on average per month?	100%
Do your municipality have a ripple control in place that is operational? (Yes/No)	Yes
How much do you estimate is the cost saving in utilizing the ripple control system?	Via load control
What is the frequency of meters being read? (per month, per year)	Monthly
Are estimated consumption calculated at consumption over (two month's/three months'/longer period)	Read on a monthly basis
On average for how long does the municipality use estimates before reverting back to actual readings? (months)	N/A
Duration before availability of electricity is restored in cases of breakages (immediately/one day/two days/longer)	Immediately where possible
Are accounts normally calculated on actual readings? (Yes/no)	Yes
Do you practice any environmental or scarce resource protection activities as part of your operations? (Yes/No)	No
How long does it take to replace faulty meters? (days)	Within 30 days
Do you have a plan to prevent illegal connections and prevention of electricity theft? (Yes/No)	Yes, tender has been drawn up
How effective is the action plan in curbing line losses? (Good/Bad)	Not in use at the moment
How soon does the municipality provide a quotation to a customer upon a written request? (days)	Within 7 days
How long does the municipality takes to provide electricity service where existing infrastructure can be used? (working days)	Within 10 days
How long does the municipality takes to provide electricity service for low voltage users where network extension is not required? (working days)	Within 10 days
How long does the municipality takes to provide electricity service for high voltage users where network extension is not required? (working days)	Within 30 days
Sewerage Service	
Are your purification system effective enough to put water back in to the system after purification?	Yes
To what extend do you subsidize your indigent consumers?	Indigent consumers get subsidized 100%
How long does it take to restore sewerage breakages on average	
Severe overflow? (hours)	24 hours
Sewer blocked pipes: Large pipes? (Hours)	4 hours
Sewer blocked pipes: Small pipes? (Hours)	1 hour
Spillage clean-up? (hours)	1 hour

Province: Municipality (KZN263) - Schedule of Service Delivery Standards Table	
Description Standard	Service Level
Replacement of manhole covers? (Hours)	1 hour
Road Infrastructure Services	
Time taken to repair a single pothole on a major road? (Hours)	2 hours
Time taken to repair a single pothole on a minor road? (Hours)	1 hour
Time taken to repair a road following an open trench service crossing? (Hours)	8 hours
Time taken to repair walkways? (Hours)	4 hours
Property valuations	
How long does it take on average from completion to the first account being issued? (one month/three months or longer)	One month
Do you have any special rating properties? (Yes/No)	No
Financial Management	
Is there any change in the situation of unauthorised and wasteful expenditure over time? (Decrease/Increase)	Yes, it is decreasing
Are the financial statement outsources? (Yes/No)	AFS are compiled in conjunction with PWC
Are there Council adopted business process structuring the flow and management of documentation feeding to Trial Balance?	Yes
How long does it take for a Tax/Invoice to be paid from the date it has been received?	30 days
Is there advance planning from SCM unit linking all departmental plans quarterly and annually including for the next two to three years procurement plans?	No
Administration	
Reaction time on enquiries and requests?	7 working days
Time to respond to a verbal customer enquiry or request? (working days)	7 working days
Time to respond to a written customer enquiry or request? (working days)	7 working days
Time to resolve a customer enquiry or request? (working days)	7 working days
What percentage of calls are not answered? (5%, 10% or more)	5%
How long does it take to respond to voice mails? (hours)	N/A
Does the municipality have control over locked enquiries? (Yes/No)	No

Province: Municipality (KZN263) - Schedule of Service Delivery Standards Table	
Description Standard	Service Level
Is there a reduction in the number of complaints or not? (Yes/No)	Yes
How long does it take to open an account to a new customer? (1 day/ 2 days/ a week or longer)	1 day
How many times does SCM Unit, CFO's Unit and Technical unit sit to review and resolve SCM process delays other than normal monthly management meetings?	Not often
Community safety and licensing services	
How long does it take to register a vehicle? (minutes)	60 minutes
How long does it take to renew a vehicle license? (minutes)	60 minutes
How long does it take to issue a duplicate registration certificate vehicle? (minutes)	60 minutes
How long does it take to de-register a vehicle? (minutes)	60 minutes
How long does it take to renew a driver's license? (minutes)	60 minutes
What is the average reaction time of the fire service to an incident? (minutes)	60 minutes
What is the average reaction time of the ambulance service to an incident in the urban area? (minutes)	N/A
What is the average reaction time of the ambulance service to an incident in the rural area? (minutes)	N/A
Economic development	
How many economic development projects does the municipality drive?	3
How many economic development programmes are deemed to be catalytic in creating an enabling environment to unlock key economic growth projects?	5
What percentage of the projects have created sustainable job security?	5%

Province: Municipality (KZN263) - Schedule of Service Delivery Standards Table	
Description Standard	Service Level
Does the municipality have any incentive plans in place to create a conducive environment for economic development? (Yes/No)	No
Other Service delivery and communication	
Is an information package handed to the new customer? (Yes/No)	No
Does the municipality have training or information sessions to inform the community? (Yes/No)	No
Are customers treated in a professional and humanly manner? (Yes/No)	Yes

Annexure G - Policies